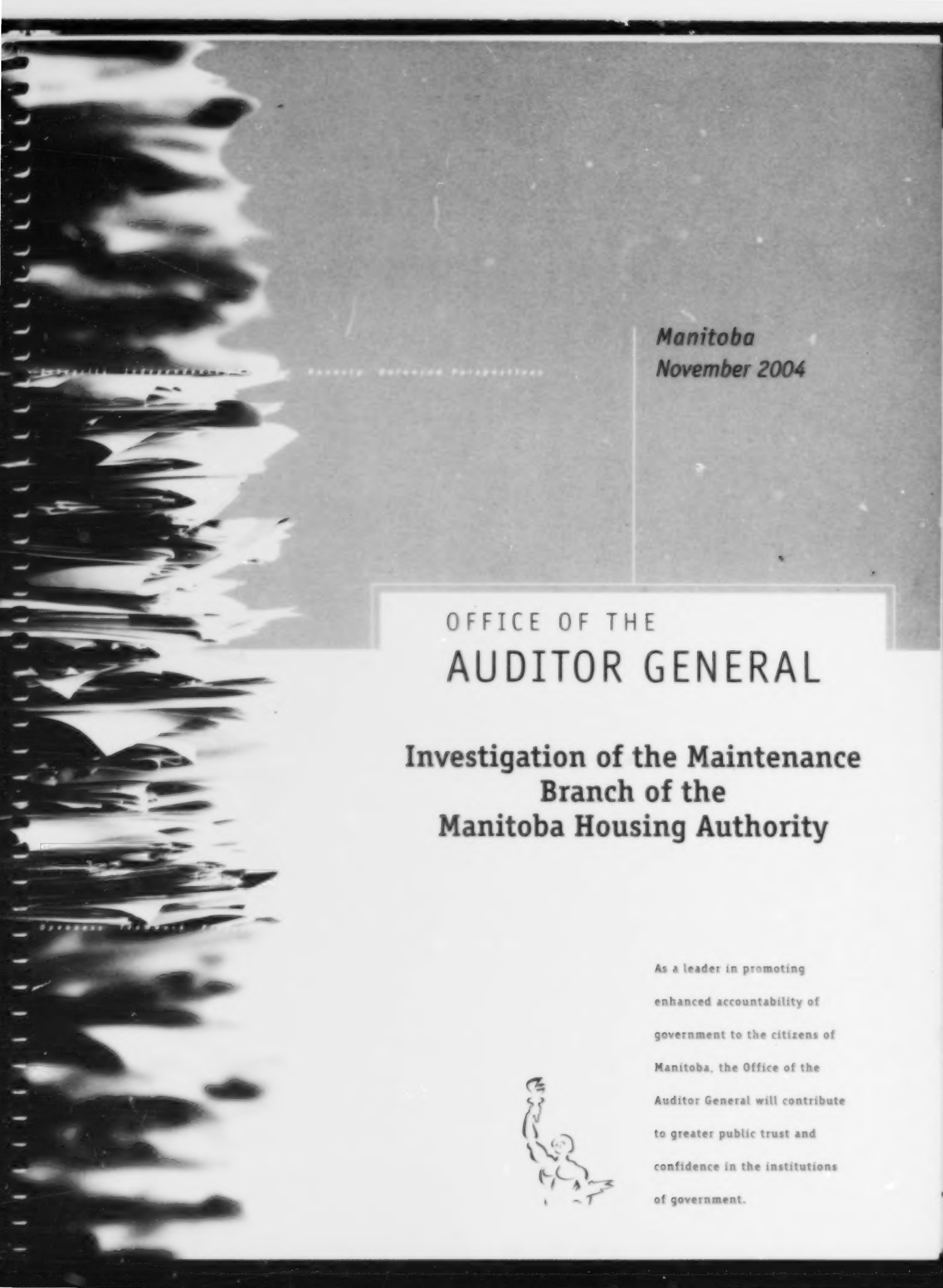

Manitoba
November 2004

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AUDITOR GENERAL

Investigation of the Maintenance Branch of the Manitoba Housing Authority

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November 2004

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report on the *Investigation of the Maintenance Branch of the Manitoba Housing Authority* to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted.

Jon W. Singleton, CA•CISA
Auditor General

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A number of allegations were brought to my attention regarding alleged operational irregularities within the Maintenance Branch of the Manitoba Housing Authority (MHA). Subsequent to discussions with representatives of the Department of Family Services and Housing, I was requested by the Minister of Family Services and Housing to determine whether there was substance to these allegations.

Our work was conducted within the context of two significant limitations:

- inadequate manual records and information systems for the period of review did not enable a complete review and assessment of information; and
- important documents were inadvertently destroyed by MHA.

The limited information that was available, provided no evidence of secret commissions or frauds against the government; bid rigging; unidentified instances of theft of MHA controlled assets; and no definitive instances of inappropriate tendering and bidding practices. However, we observed that MHA has a culture where rumor and innuendo were widespread and that significant morale and communications issues impacted MHA's effectiveness.

I believe that such an environment creates an undue risk of negative consequences for the effective, efficient, and economical management of housing stock owned by the province. Understanding and addressing perceptions of irregularities in the public sector is important even when an investigation fails to confirm an allegation. In the present case, we have highlighted in this report the steps MHA needs to take to build a strong and effective management culture.

In particular, MHA needs to continue to improve its processes in the following broad areas:

- execution of full property inspections incorporated into a long-term property management plan used for budgeting and spending purposes;
- updating, maintaining and communicating policies and procedures within MHA, with a view to improving purchasing practices; and
- focusing on improving communication within MHA to address issues of mistrust and suspicion.

In December 2002, I issued a report on the Public Housing Program within the Department that provided recommendations with respect to MHA operations. While our follow-up in Chapter III on those recommendations highlights that some improvements have been made, I believe that addressing these recommendations more fully is an important component of addressing the issues raised in this investigation. Employees need to work within a context of logical decision-making around how MHA budgets are determined and how spending is managed over the various properties assigned to maintenance coordinators.

I am encouraged by the cooperation we have received from the Department and MHA during our investigation and by their acceptance of our recommendations with a commitment to address them in a timely manner.

Jon W. Singleton, CA•CISA

Executive Summary

In February 2003, the Office of the Auditor General (OAG) initiated discussions with the Department of Family Services and Housing (Department) regarding allegations of irregularities in the Maintenance Branch of the Manitoba Housing Authority (MHA). Subsequently, a letter dated February 27, 2003, was received by the OAG from the Minister of the Department requesting that the OAG investigate these allegations. The allegations related to the payment of secret commissions, bid rigging, conflicts of interest, and theft of property, and overall inappropriate tendering and bidding practices.

Chapter I – Investigation of Allegations of Irregularities in the Maintenance Branch of the MHA (Section 3.0)

The investigation was conducted from March 2003 to February 2004 and focused on the Repair and Maintenance function of the Maintenance Branch for the MHA direct-managed properties within the City of Winnipeg and did not include sponsor-managed properties. Our financial analysis was also confined to the Repairs and Maintenance function within the City of Winnipeg. Documentation reviewed extended over the period April 1992 through to February 2004.

Our scope was limited by the fact that the system for recording purchase orders was not automated until April 2000, with the introduction of the Maintenance Management System (MMS). Information related to purchase orders prior to that date was not readily available. A further limitation was presented when we were informed that documents being held by MHA that may have been used in our investigation had been destroyed, and no reasonable explanation could be provided for this loss.

Summary of Allegations and Conclusions

Allegations	Conclusions
Secret Commissions and Frauds Against the Government (Section 3.1.1)	
• Maintenance Coordinators (MCs) were receiving cash and/or other personal benefits from contractors in return for awarding turnover work to those contractors and, as a result, driving up turnover project costs during the period April 1999 to March 2003.	• Based on interviews with MCs and contractors, we found no evidence confirming that MCs were receiving cash and/or other personal benefits from contractors in return for awarding turnover work to those contractors. • Based on our work which was drastically affected by the inconsistent categorization of information input into the MMS, we found no evidence that linked preferential treatment of contractors to an increase in turnover costs. • Our interviews and review of available documentation determined that a specific MC highlighted in a report to the Winnipeg Police Service was not incurring significantly

Summary of Allegations and Conclusions

Allegations	Conclusions
	higher costs to complete turnover projects and other non-tendered work in comparison with other MCs over a three year period.
	• While we were able to confirm that MCs consistently invited a limited number of contractors to tender for turnover projects, we found no evidence of collusion among contractors and MCs.
	• We found evidence that in some instances MCs awarded contracts to contractors without the required three bids.
	• There was no evidence that purchase orders issued by an MC resulted in contractor payments where no work had been undertaken by the contractor.
Conflict of Interest (Section 3.1.2)	
• MCs had breached the MHA conflict of interest policy regarding their relationship with contractors doing work for the MHA.	• Based on the above information, one MC appears to have acted contrary to the Conflict of Interest guidelines. Based on interviews with MCs and contractors we found no evidence that other MCs breached the conflict of interest guidelines regarding the relationship of MHA employees with contractors.
	• While we were able to confirm that one MC obtained loans and had work completed on his residence by contractors working for the MHA, we found no evidence that the loans and the work completed resulted in the preferential awarding of work to those contractors.
	• The occurrence of the annual Christmas party, which ceased in 2003, created a situation where MHA personnel placed themselves in a perceived potential conflict of interest situation.
Bid Rigging (Section 3.1.3)	
• Certain contractors bidding on turnover contracts with the MHA were colluding with one another to ensure that the bid prices submitted resulted in an equal distribution of the work amongst themselves at elevated prices.	• While we were told of several instances where it appeared contractors may have had the opportunity to arrange or agree on the pricing for their bids on a particular request for bids, we did not find any evidence that contractors bidding on turnover contracts

Summary of Allegations and Conclusions

Allegations	Conclusions
	with the MHA were colluding with one another to ensure that the bids submitted resulted in an equal distribution of the work amongst themselves at elevated prices.
Theft of MHA Controlled Assets (Section 3.1.4)	
• MHA employees were misappropriating assets under MHA control for their personal use and benefit.	• Although we did not find any instances of theft of MHA controlled assets, other than those previously referred to the Winnipeg Police Service, a lack of inventory controls within the MHA that fully document descriptions of MHA controlled assets, their location, and their movement within MHA properties creates an opportunity for the undetected misappropriation of those assets.
• MHA employees were utilizing purchase orders provided to retail suppliers to purchase various goods for their own use and benefit, and that goods purchased were returned for cash which was not reimbursed to the MHA.	
Tenant Abandoned Goods (Section 3.1.5)	
• Some MHA staff had misappropriated tenant abandoned goods.	• Based on our interviews we believe that misappropriation of tenant abandoned goods by some MHA staff occurred prior to April 2001. However, other than in one instance, we found no direct evidence confirming that this activity took place.
	• A lack of a policy or procedure for monitoring the disposition of abandoned tenant personal property could result in the MHA being liable for the loss of these goods.
Tendering and Bidding Practices (Section 3.1.6)	
• The MHA did not follow appropriate tendering and bidding practices for the purchase of goods and services.	• Based on our interviews and review of documentation we found that current MHA tendering and bidding policies and procedures for the purchase of goods and services are being followed. However, these policies and procedures do not provide for an appropriate segregation of duties for MCs. As a result, there is an undue risk that MHA controlled assets may be misused.

Chapter II – A Review of Systemic Issues Affecting the Maintenance Branch of the MHA (Section 4.0)

Our investigation of the allegations of irregularities in the Maintenance Branch highlighted that the perception of irregularities may have resulted from systemic issues. As a result, we reviewed certain operational processes in place at MHA. Our findings and conclusions are contained in Chapter II and indicate the following:

- MHA housing stock is not being governed and managed to ensure that the stock is properly maintained with due regard to economy and efficiency;
- MHA information systems in place are not effective in assisting management in decision making;
- MHA inventory is not being effectively managed; and
- MHA has significant morale and communications issues that impact the effectiveness of the organization giving rise to an environment which fosters mistrust and suspicion.

Our recommendations regarding the Manitoba Housing Authority are contained in **Section 6.0** of this report.

Chapter III - MHA Progress on Audit Recommendations in the OAG Report of December 2002 (Section 5.0)

In December 2002 the OAG released a Value-for-Money Audits (VFM) report on the Public Housing Program within the Department. The VFM report dealt with and made recommendations concerning some of the issues raised in this report. Those recommendations and the actions taken by the Department to comply with them are presented in this chapter. Because of the relationship of these recommendations to our investigation subject matter, we requested that the MHA provide commentary on the status of each of these recommendations. Based on our review of actions taken, we believe that additional actions with defined timelines are needed to address the December 2002 recommendations.

1.0 Introduction

1.1 REQUEST

In February 2003, the Office of the Auditor General (OAG) initiated discussions with the Department of Family Services and Housing (Department) regarding allegations of irregularities in the Maintenance Branch of the Manitoba Housing Authority (MHA). Subsequently, a letter (see **Appendix D**) dated February 27, 2003 was received by the OAG from the Minister of the Department requesting that the OAG investigate these allegations. The allegations related to the payment of secret commissions, bid rigging, conflicts of interest, theft of property and overall inappropriate tendering and bidding practices.

Our authority for this investigation is contained in The Auditor General Act under Section 14(1), Audit of operations:

> *"14(1) In carrying out his or her responsibilities under this Act, the Auditor General may examine and audit the operations of a government organization with regard to any of the following matters:*
>
> *a) whether financial and administrative provisions of Acts, regulations, policies and directives have been complied with;*
>
> *b) whether public money has been expended with proper regard for economy and efficiency;*
>
> *c) whether the Assembly has been provided with appropriate accountability information;*
>
> *d) whether the form and content of financial information documents is adequate and suitable."*

1.2 SCOPE

Our investigation focused on the repair and maintenance function of the Maintenance Branch for the MHA direct-managed properties within Winnipeg and did not include sponsor-managed properties.

The focus of our review of the allegations covered the period April 1999 to March 2003. Our investigation was conducted from March 2003 to February 2004 and included: extensive interviews; analyses of Department files, financial information, information from the computerized Maintenance Management System (MMS); and a detailed review of correspondence and other supporting documentation. Documentation reviewed extended over the period April 1992 through to February 2004.

We interviewed current and former Department personnel, including senior managers, Maintenance Coordinators, Property Managers, a Tenant Relations Officer and Building Superintendents, current and former MHA contractors and other individuals who were identified during our investigation as having pertinent information that would assist us.

Our work further consisted of such examinations and procedures that we determined were necessary to address other issues that arose during the course of this investigation. We engaged KPMG Forensic to work with our office during this investigation.

Our initial investigation of the allegations of irregularities highlighted potential systemic problems in MHA. As a result, we decided to review certain processes in place at MHA and follow-up on recommendations issued by our Office in a December 2002 audit report on Public Housing. Our work is presented as follows:

A glossary of terms used throughout the report is included in *Appendix A*.

Chapter I

Investigation of Allegations of Irregularities in the Maintenance Branch of MHA (Section 3.0)

Chapter II

A Review of Systemic Issues Affecting the Maintenance Branch of MHA (Section 4.0)

Chapter III

MHA Progress on Audit Recommendations in the OAG Report of December 2002 (Section 5.0)

1.3 SCOPE LIMITATIONS

In May 2003, we were informed that documents being held by MHA that may have been used in our investigation had been destroyed. We were dismayed that this event took place. This matter has been referred to the Ombudsman's Office for investigation.

We determined that differences in the types of housing units, and the demographics of Winnipeg portfolios; as well as inconsistencies in the manner in which Repairs and Maintenance (R&M) expenses were recorded in the MMS, resulted in an inability to make meaningful comparisons of turnover costs at the portfolio, project and unit level. These differences hindered our ability to accurately identify anomalies in turnover costs associated with any one particular portfolio or MC.

Further, information related to purchase orders issued prior to April 2000 was not readily available. In April 2000, MHA implemented a computerized purchasing system.

2.0 Background

2.1 ORGANIZATION RESPONSIBILITIES

Provincial housing policy, program delivery and the management of provincial housing assets are carried out through three organizational entities in Manitoba: the Housing Division of the Department; the Manitoba Housing and Renewal Corporation; and the Manitoba Housing Authority.

As per the *2002-2003 Annual Report* of Manitoba Family Services and Housing:

> *"The underlying objective of public housing is to provide quality housing at an affordable rent to low-income seniors, families and others with an identified need. The program is targeted at households whose income is too low to obtain affordable, suitable and adequate accommodation in the private market without spending more than 30 per cent of household income on housing costs. Priority for entry into public housing is determined on an assessed need basis."*

2.1.1 The Housing Division of the Department

The Housing Division of the Department has overall responsibility for the development, delivery and administration of provincial housing policy and programs. During the period April 1, 2002 to March 31, 2003 it operated with a budget of $9.1 million and 97.0 full-time equivalent staff positions. The ownership of provincially owned properties and the property management function has been assigned to the following two entities.

2.1.2 Manitoba Housing and Renewal Corporation

The Manitoba Housing and Renewal Corporation (MHRC) is a crown corporation created by statute in 1967 that operates pursuant to The Housing and Renewal Corporation Act. MHRC is governed by a board of directors under the provisions of the Act, with policy direction from the government. As set forth by statute, the MHRC board of directors is appointed through Order-in-Council. Prior to February 2003, MHRC had no staff. The Department provided all staff services to MHRC. A legislative amendment to The Housing and Renewal Corporation Act came into effect August 2002, permitting MHRC to employ staff in accordance with The Civil Service Act. Accordingly, the existing staff from the Housing Division who supported the operation of the MHRC or delivered programs funded by the MHRC were formally transferred to the MHRC effective February 8, 2003.

MHRC is responsible for approximately 34,000 housing units in Manitoba (MHRC owns 17,900 of these units) and receives provincial money to cover the difference between MHRC's revenues and its expenses, less federal recoveries from the Canada Mortgage and Housing Corporation (CMHC). These monies are transferred from the Department to MHRC as required based on annual estimates.

2.1.3 Manitoba Housing Authority

MHA was created in 1992 under The Housing and Renewal Corporation Act to replace approximately 100 housing authorities throughout the province which had been operating under the MHRC umbrella.

MHA provides the property management function for the approximately 13,100 direct-managed housing units within the provincially owned public housing portfolio. Approximately 8,050 of these units are located in Winnipeg.

MHA is governed by a board of directors appointed under ministerial order. MHA receives policy direction from the MHRC Board of Directors. MHA also receives policy direction

from its Chief Executive Officer who is the Assistant Deputy Minister of the Housing Division of the Department.

Employees of MHA manage the properties held by MHRC. MHA has a complement of approximately 320 staff (who do not have civil service status) with an additional 100 building superintendents hired on a contract basis for projects located throughout the province. Support services, such as research, planning, financial, personnel, legal and information systems are provided to MHA by the Housing Division of the Department.

All revenues and expenses, including the administrative cost of operating MHA, are the responsibility of MHRC.

2.2 EVOLUTION OF MHA

Subsequent to the creation of MHA in 1992, a number of minor organizational changes were implemented. Effective September 1, 1997, a major reorganization of the Department occurred that included both MHRC and MHA.

As a result, MHA was restructured into Winnipeg District Office, Rural District Offices, Client Services, Maintenance Branch, and a Sponsor and Private/Non-profit Housing asset management division.

The Maintenance Branch was primarily responsible for the development and administration of long term Modernization and Improvement (M&I) capital projects throughout the Province and also provided guidance and support on Repair and Maintenance (R&M) programs within the Winnipeg District Office and the Rural District Offices.

The Winnipeg District Office was established to provide property management for housing accommodations and support services for tenants in Winnipeg. The Winnipeg District Office was comprised of four operational areas responsible for ten portfolios with a Maintenance Coordinator (MC) in each portfolio. One of these areas, Repairs and Maintenance, was responsible for the planned and preventative maintenance program activity and maintenance repairs. The MCs coordinated these activities as well as providing technical advice and assistance in support of safe, healthy and well-maintained accommodation.

Prior to this 1997 reorganization, Winnipeg was organized into four portfolios utilizing eighteen MCs. Each MC was then responsible for approximately 400 units compared to 750 to 800 units after the reorganization.

In 1999/00, the programs and services of the former Departments of Housing and Family Services were combined into one organization. The Department of Housing became the Housing Division of the newly formed Department of Family Services and Housing.

Another major reorganization of MHA occurred in 2001. The initial step in this reorganization was to integrate the R&M functions, both in Winnipeg and rural areas, with the M&I function to form a new Maintenance Branch within the Property Maintenance/Capital Improvements Division. Several key personnel moves took place effective February 2001, whereby personnel within the former M&I function assumed leadership responsibility for the new Division.

Currently, the restructured Maintenance Branch is responsible for both R&M and M&I activities within Winnipeg and throughout the Province.

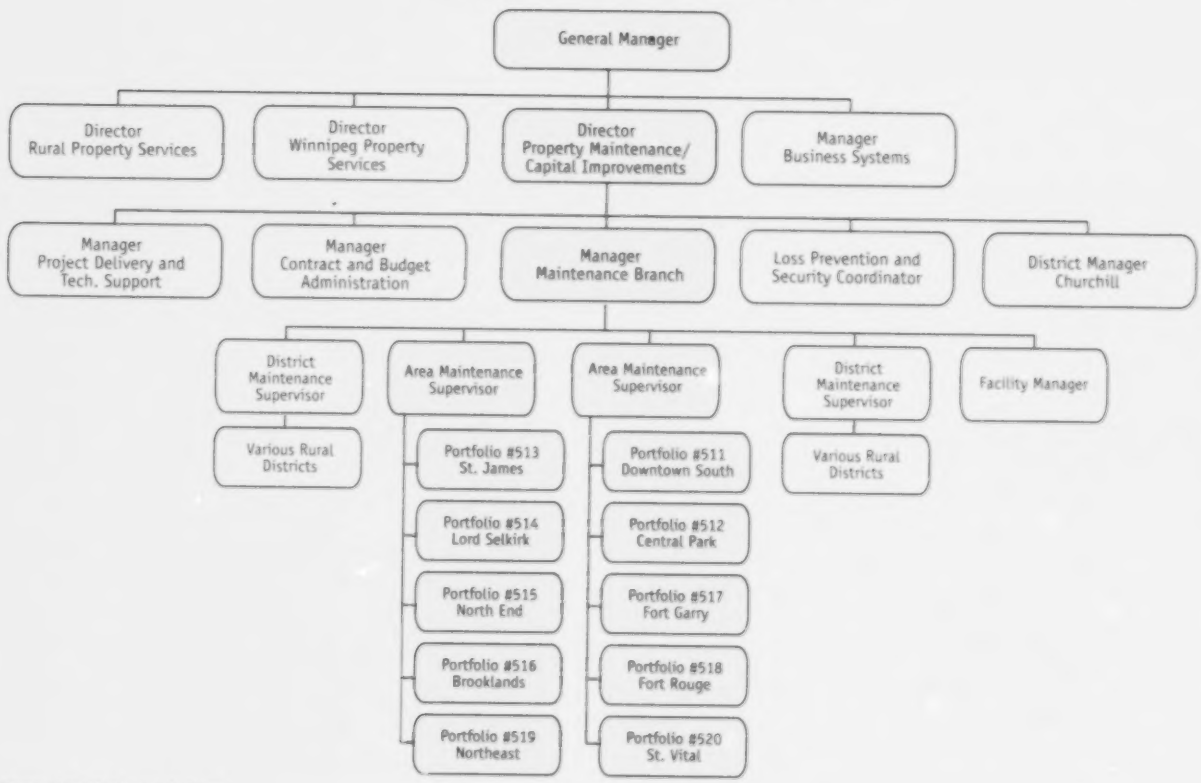
In May 2001, the reorganization continued with the splitting of the Winnipeg District into Winnipeg North and Winnipeg South Districts. Two Area Maintenance Supervisor positions were created. The Area Maintenance Supervisors were responsible for managing the MCs and planning, directing and controlling the overall delivery of R&M programs within their respective districts.

The Contract and Budget Administration Branch currently provides contract administration services for Service Standing Agreement Contracts (SSACs) for both R&M and M&I functions. SSACs are contracts for the purchase of materials and/or services at a pre-determined price and for a fixed duration of time.

An MHA organization chart (as at November 14, 2003), focusing on the Maintenance Branch for MHA direct-managed properties within Winnipeg, is presented in **Figure 1**.

FIGURE 1

Manitoba Housing Authority
Property Maintenance/Capital Improvements Division



Source: Manitoba Housing Authority

2.3 FINANCIAL INFORMATION

A five-year financial history of MHA direct-managed properties, revenue and expenditures, is presented in **Figure 2**.

FIGURE 2

**Five-Year History of Housing Operations and Approved Estimates
Manitoba Housing Authority Direct-Managed Properties ($000s)**

	1998/99		1999/00		2000/01		2001/02		2002/03	
	Financial Statements	Estimate	Financial Statements	Estimate	Financial Statements	Estimate	Financial Statements	Estimate	Financial Statements	Estimate
Revenue										
Rental revenue	$44,764	$45,974	$46,672	$44,987	$46,311	$46,338	$47,215	$46,727	$48,588	$47,033
Expenditures										
Administration (1)	9,007	8,939	11,444	9,862	11,544	9,113	12,137	10,056	12,363	11,293
Property Operating (2)	31,281	32,743	31,888	33,436	33,042	35,049	29,118	36,844	31,253	30,230
Grants in lieu of taxes	9,997	11,521	8,171	10,565	9,394	10,998	8,601	10,291	9,649	10,264
Amortization and interest (3)	29,382	28,041	30,425	26,132	30,576	26,835	30,406	27,655	30,316	27,599
	79,666	81,244	81,929	79,995	84,556	81,995	80,262	84,846	83,581	79,386
Operating Loss	$34,902	$35,270	$35,257	$35,008	$38,245	$35,657	$33,047	$38,119	$34,993	$32,353
# of Units (4)	12,943		12,992		12,966		12,970		13,121	
Average Property Operating Cost Per Unit (5)	$ 2,417		$ 2,454		$ 2,548		$ 2,245		$ 2,382	

Notes:
(1) Actual results include non-budgeted Contributed Services from the Department.
(2) Includes Repairs and Maintenance, Utilities, Modernization and Improvement, and Insurance.
(3) Actual results reflect the non-budgeted Federal share of Rural and Northern Housing Program amortization and interest.
(4) Per Manitoba Family Services and Housing Annual Report.
(5) Figures are in actual dollars.

Source: Department of Family Services and Housing

We noted from **Figure 2** that although budgeted figures have fluctuated over the years, the Property Operating budget for the 2002/03 fiscal year is approximately $2.5 million less than the budget for the 1998/99 fiscal year. Annual operating losses are covered by the Province of Manitoba.

Between 1998/99 and 2002/03 MHA spent $156.6 million in direct-managed property operating expenditures.

CHAPTER I

INVESTIGATION OF ALLEGATIONS OF IRREGULARITIES IN THE MAINTENANCE BRANCH OF MHA

Chapter 1

3.0 Investigation of Allegations of Irregularities in the Maintenance Branch of MHA

3.1 ALLEGATIONS

In February 2003 the Department prepared and submitted to the Winnipeg Police Service (WPS) a report highlighting situations that they believed indicated that there were inappropriate activities occurring within the Maintenance Branch of MHA. Upon reading this report and after discussions with Department personnel the OAG considered the allegations raised as a result of these activities to be significant.

The allegations related to the payment of secret commissions, bid rigging, conflicts of interest, theft of property and overall inappropriate tendering and bidding practices.

3.1.1 Secret Commissions and Frauds Against the Government

Allegation #1

Maintenance Coordinators (MCs) were receiving cash and/or other personal benefits from contractors in return for awarding turnover work to those contractors and, as a result, driving up turnover project costs during the period April 1999 to March 2003.

Turnover is defined as the process whereby a tenant moves out of a unit and the vacant unit is prepared for the new tenant.

The complaints received by the OAG from citizens and the specific allegations in the memorandum to the WPS alleged that certain MCs were receiving monies and/or other benefits from named contractors in return for providing those contractors with turnover and repair work. The complaints alleged this illicit activity was evidenced through witness accounts and documentation that demonstrated that:

- A specific MC was incurring significantly higher costs to complete turnover and other non-bid work;
- Specific MCs consistently invited a limited number of named contractors to bid for turnover projects;
- Specific MCs awarded contracts to named contractors without the required competitive bids being received; and
- A specific MC issued purchase orders to a named contractor for work that had not been undertaken.

The allegations of the receipt of cash and/or other benefits by MCs from contractors conducting business with the MHA that are the subject of this report, would, if substantiated constitute activities which are prohibited by Section 121(1)(a) and (b) of the Criminal Code of Canada. Substantiation of the allegations requires evidence that:

- An offer of a loan, reward, advantage or benefit is made by a person to an official, or his family or to a third person for the benefit of the official, or the official demanded, accepted or agreed to accept such an offer for himself or for another person;
- The purpose of the transaction was for the official's cooperation, influence and/or doing or omitting to do any act in connection with the transaction of any business matter with the government; and
- The official does not have the written permission of the head of the government department with whom he deals.

Findings

- Interviews conducted with present and former MHA employees determined that rumours of payments and other benefits asked for, given or received by contractors and asked for, given or received by MCs were rampant throughout the organization.
- Some individuals interviewed related that in exchange for awarding work to contractors, they had heard of MCs being paid by contractors a percentage of the contract price of a job, and that MCs received benefits from contractors in the form of labour and/or materials for their personal residences. In one situation, they related that a computer had been purchased by contractors and given to an MC.
- Despite these statements, the seven MCs, seven Building Superintendents and nine contractors interviewed stated that they had no personal knowledge or evidence of any such payments or benefits having been given and/or received.
- We were unable to confirm in our interviews that a computer had been purchased by contractors and given to an MC. Although an MC advised us that he had borrowed a computer from a contractor, contractors denied any knowledge concerning the purchase or the lending of a computer to an MC by contractors.
- Our interviews determined that it is a normal business practice for MCs to develop relationships with contractors and to consistently use the same contractors to provide the project work in their portfolios. Those interviewed reasoned that they utilized contractors whom they could depend on to provide good workmanship in a timely manner. They also cited the advantages of having contractors who were familiar with the individual projects which reduced the time and expense associated with repairs that were required to maintain the project's mechanical, electrical, plumbing and other systems.
- Prior to August 30, 2001, MCs were notified of any upcoming vacancies that required turnover work. The MCs were then to determine the scope

of necessary repairs and to invite a minimum of three contractors of their choice to bid (could be by telephone or verbal) for work estimated to be between $300 and $2,000, or to award the work to a contractor of their choice if the estimated work was less than $300. If the work was estimated to be in excess of $2,000, the MC was required to obtain approval from his supervisor. On August 30, 2001, the Director, Corporate Services, issued a memo increasing the $300 threshold to $700, and required that the minimum three quotes be recorded.

- In April 2002 the bidding process was amended to require that all bids for turnover work be submitted by fax to a designated staff member at the MHA head office after the invitations to bid had been made by the MC. These bids were recorded on a spreadsheet by the designated staff member and then forwarded to the MC. The MC was then to award the contract to the lowest bidder. The competitive bids were to be recorded in the MMS.
- This amended process was to eliminate the risk of an MC notifying a preferred contractor of bid results just prior to closing. However, the MC still determined who would be invited to bid.
- We determined through interviews and documentation that MCs in Winnipeg have not consistently obtained or recorded the required three competitive bids. A procedure was initiated in 2002 whereby an MHA staff member was assigned the task of reviewing purchase orders over $700 (excluding turnovers and SSACs) to determine whether the three competitive bids had been recorded in the MMS.
- After identifying purchase orders where the required bids had not been recorded, the MHA staff member was to advise the appropriate Area Maintenance Supervisor and the issuing MC of the purchase orders in question. The Area Maintenance Supervisor was to determine from the individual MCs whether or not the required bids had been obtained. If bids had been obtained, the purchase order was to be updated, and if bids had not been obtained an explanation was required. Despite this new practice, there is no process in place to monitor whether or not the lowest bidder is awarded the contract, nor is there a process in place to analyze or review competitive bids for unusual circumstances.
- We were informed that the purchase order review procedure was not completed on a regular basis. The MHA staff member assigned to the purchase order review advised us in December 2003, that due to workload pressures he had not been able to conduct a review for the months of June through November 2003. A similar purchase order review had been performed by the Accounts Payable function of the Department in April 2003 covering the period April 2002 through April 2003. We examined the results of this purchase order review and found that the magnitude of non-compliance was not significant.
- The memorandum to the WPS stated that some of the turnover costs associated with one MC, during the 1999/00 fiscal year, were significantly higher than the turnover costs of other MCs. We reviewed MHA

documentation regarding this matter and noted that although costs for some turnover projects were significantly higher than the norm, all such costs were approved by the superiors of the MC. In interviews with MHA management of that time, it was stated that all turnover work and associated costs of that MC were considered satisfactory. We reviewed turnover costs associated with two other MCs for this same period and found that one of the MCs had generated significantly higher costs than the MC noted in the WPS memorandum.

- Through interviews and documentation we determined that during the fiscal years 1997 to 1999, MHA was experiencing a high vacancy rate. In an effort to reduce this rate, MCs were being told to do whatever was necessary to make the vacant units ready for occupancy. As many of these units had been vacant for some time, the costs to prepare the units for occupancy were higher than the norm.

Figure 3 presents vacancy rates and waiting lists over a 9-year period.

FIGURE 3

Winnipeg Vacancy and Waiting Lists for the Years 1995 - 2003

Year*	Total Units	Vacancies	%	Waiting List
1995	7,585	733	9.7	1,078
1996	7,575	815	10.8	1,208
1997	7,616	770	10.1	1,265
1998	7,618	985	12.9	1,103
1999	7,662	659	8.6	905
2000	7,611	472	6.2	2,242
2001	7,585	424	5.6	2,527
2002	8,004	397	5.0	2,816
2003	8,002	385	4.8	3,130

*Data as at September for all years.

Source: Manitoba Housing Authority

- Interviews and a review of MHA documentation showed that the total costs in the R&M function in Winnipeg were over budget by approximately $600,000 in the 1999/00 fiscal year. This overage has been attributed to several changes in the way business was conducted at the MHA at that time:
  - The "Turnkey" method for performing turnovers was introduced. Although this method was expected to reduce the time-frame within which turnover projects could be completed at a comparable cost, present MHA management stated that a higher cost per turnover occurred.
  - There was a concerted effort by the Department to decrease the number of vacant units by upgrading these units and making them more attractive to clients. This effort resulted in increased R&M costs, but also resulted in increased revenues.

- Due to the age of the housing stock, many units required significant upgrades to flooring, heating, plumbing and ventilation systems. Much of the costs of this work were charged to R&M where in previous years some of these costs were paid out of M&I funding.

- This trend continued during the 2000/01 fiscal year when the R&M function in Winnipeg was approximately $1,000,000 over budget. Variance reports prepared by the MHA noted several reasons for this overage. The majority of the overage was attributed to the deferral of a significant number of turnover units in very poor condition, and repair costs from the 1999/00 fiscal year. Other significant items included the upgrade and repair of existing fire protection devices to comply with code requirements, continued upgrades to heating, plumbing, and ventilation systems of the aging housing stock and increased janitorial labour expenses as the result of a new collective agreement. For the 2001/02 and the 2002/03 fiscal years, the R&M function in Winnipeg was under budget.

- We analyzed purchase order dollar values and payment records contained in the MMS for 16 MCs in Winnipeg portfolios for the fiscal years 2000/01 to 2002/03, inclusive. We noted that:

  - A total of 56,171 purchase orders with a value of $17.6 million were authorized for payment by those MCs. The average payment authorized was approximately $314;

  - A comparison of the number of purchase orders issued by each MC in the Winnipeg portfolios in this time frame, and the average authorized dollar values of those purchase orders indicated that only one MC's average payment per purchase order was significantly higher than the average payment for all MCs in those years;

  - The variance for this MC was approximately $300 higher in 2000/01 and approximately $260 higher in 2001/02; and

  - The number of purchase orders issued for payment by the MC in those years was considerably less than the number issued by other MCs. However, the MC grouped many individual items on a single purchase order, explaining the reason for the variance.

- The MC with the higher costs is not the specific MC noted in the report to the WPS.

- We determined that differences in the types of housing units, and the demographics of Winnipeg portfolios; as well as inconsistencies in the manner in which R&M expenses were recorded in the MMS, resulted in an inability to make meaningful comparisons of turnover costs at the portfolio, project and unit level. These differences hindered our ability to accurately identify anomalies in turnover costs associated with any one particular portfolio or MC.

- One of the allegations made was that purchase orders had been issued by an MC and that the contractor could provide no evidence that the work

had been done. Interviews and supporting documentation, determined that the work had in fact been done, the invoice had been approved by a supervisor, and the contractor had been paid.

Conclusions

- *Based on interviews with MCs and contractors, we found no evidence confirming that MCs were receiving cash and/or other personal benefits from contractors in return for awarding turnover work to those contractors.*
- *Based on our work which was drastically affected by the inconsistent categorization of information input into the MMS, we found no evidence that linked preferential treatment of contractors to an increase in turnover costs.*
- *Our interviews and review of available documentation determined that a specific MC highlighted in a report to the Winnipeg Police Service was not incurring significantly higher costs to complete turnover projects and other non-tendered work in comparison with other MCs over a three year period.*
- *While we were able to confirm that MCs consistently invited a limited number of contractors to tender for turnover projects, we found no evidence of collusion among contractors and MCs.*
- *We found evidence that in some instances MCs awarded contracts to contractors without the required three bids.*
- *There was no evidence that purchase orders issued by an MC resulted in contractor payments where no work had been undertaken by the contractor.*

3.1.2 Conflict of Interest

Allegation #2

MCs had breached the MHA conflict of interest policy regarding their relationship with contractors doing work for MHA.

The allegations of conflict of interest by MCs that are the subject of this report, would, if substantiated, constitute activities which are contrary to the *Conflict of Interest Policy for Manitoba Government Employees* (effective 1984 and amended 1996) that states:

> *"Employees shall not act in any official matter where there is a personal interest which is incompatible with an unbiased exercise of official judgement"; and*
>
> *"Employees shall not place themselves in a position where they are under obligation to any person or organization who might benefit from improper consideration or favour on their part or seek in any way to gain improper treatment from them in the discharge of their official duties and responsibilities."*

In addition to the above, MHA personnel are subject to specific conflict of interest policies (March 1995) as detailed in the *Policy and Administration* module of the MHA *Operating Manual*:

> *"Staff must not place themselves or appear to place themselves, in a situation where they could derive any direct or indirect benefit or interest from any MHA contracts";*
>
> *"Gifts, hospitality, or other benefits that could influence, or appear to influence staff in their judgement and performance of official duties and responsibilities, must be declined"; and*
>
> *"Staff shall have an obligation to act in a manner that will bear the closest public scrutiny."*

Findings

- Interviews have confirmed that one MC had work completed on his residence by several contractors who the MC used regularly to complete work in his portfolio. Contractors, with one exception, stated to us that they did not invoice the MC for the work completed, and that they did not receive any monies from the MC for the work.
- In an interview, the above MC confirmed that he had given airline tickets to a contractor in return for work the contractor performed on his residence. The contractor did not invoice the MC and the MC did not provide a monetary payment for the work. The MC noted that he had advised MHA management of this action and had received their approval. MHA management of the time denied that any such advisement or approval had taken place.
- Interviews determined that two loans were made to an MC by a contractor. However, the contractor advised us that he did not feel compelled to advance the loans and did not believe that he received any particular advantage as a result. He also advised that he had never been repaid for these loans. We reviewed MMS records and determined that the contractor had not received additional work from the MC subsequent to the loans having been made.
- Interviews confirmed, that beginning in approximately 1998, contractors were prohibited from providing individual gifts to MHA staff. Gift giving was particularly prevalent during the Christmas season. Subsequently, beginning in 1998, an annual Christmas party was organized by the contractors at their own expense whereby MHA employees could purchase tickets to attend at a nominal cost. Door prizes and other gifts were supplied by those contractors who participated in the organization of the party. Any profits were to be donated to a Christmas charity. All levels of MHA staff were invited and interviews confirmed that personnel from all levels did attend. This practice continued until December 2002.
- We reviewed minutes of a meeting held with MCs on November 26, 2002, where it was made clear to the MCs by a senior MHA staff member that the administration viewed the MCs attendance at the contractors' Christmas

party as a possible conflict of interest as the MCs have sole discretion in awarding work to the contractors. Management urged the MCs and other staff members not to attend. We were told in interviews that no Christmas party was held in 2003.

Conclusions

- *Based on the above information, one MC appears to have acted contrary to the Conflict of Interest guidelines. Based on interviews with MCs and contractors we found no evidence that other MCs breached the conflict of interest guidelines regarding the relationship of MHA employees with contractors.*
- *While we were able to confirm that one MC obtained loans and had work completed on his residence by contractors working for the MHA, we found no evidence that the loans and the work completed resulted in the preferential awarding of work to those contractors.*
- *The occurrence of the annual Christmas party, which ceased in 2003, created a situation where MHA personnel placed themselves in a perceived potential conflict of interest situation.*

3.1.3 Bid Rigging

Allegation #3

Certain contractors bidding on turnover contracts with the MHA were colluding with one another to ensure that the bid prices submitted resulted in an equal distribution of the work amongst themselves at elevated prices.

The complaints received by the OAG from citizens and the specific allegations in the memorandum to the WPS alleged that certain contractors were colluding with each other in the submission of bids for turnover projects. The complaints alleged this illicit activity was evidenced through documentation that demonstrated:

- That specific MCs were incurring significantly higher costs to complete turnover projects; and
- That a limited number of named contractors bid for turnover projects handled by those MCs.

The allegations of bid rigging by contractors conducting business with the MHA that are the subject of this section of the report, would, if substantiated, constitute activities which are prohibited by Section 47(2) of The Competition Act of the Consolidated Statutes of Canada. Substantiation of the allegations requires evidence that:

- There is an agreement or arrangement between two or more persons to not submit a bid in response to a request for tender, or; the submission of the bid is arrived at by agreement between two or more of the bidders or tenderers; and

- In either case, the agreement or arrangement is not made known to the person calling for the bids or tenders at or before the time when any bid or tender is made by any person who is a party to the agreement or arrangement.

Findings

- Interviews with MHA staff and contractors identified that it was a common occurrence for certain contractors to meet amongst themselves after turnover site visits. We were told by MHA staff that after site visits at 185 Smith Street, contractors were occasionally observed sitting together at a coffee shop with open quote sheets on their table. However, these MHA staff members were unable to identify to which sites the quote sheets were related.
- A building superintendent stated in an interview that in the summer of 2003, during a site visit for three of his properties, he observed two of the contractors who attended had arrived in the same vehicle. He also noted that these two contractors shared one sheet of paper during the site visit. The building superintendent stated that he overheard one of the contractors say to the other: *"You'll probably be a little higher than me, but we'll work that out later."* Our review of the competitive bids for these properties showed that one contractor was consistently lower than the second contractor, and was awarded all three turnovers.
- Interviews with contractors and MHA staff noted that, on occasion, contractors traveled together to visit turnover sites. Contractors advised that the rationale for sharing transportation was for convenience and parking.
- On some occasions, certain contractors were seen to be assisting each other by writing notes relating to scopes of work at the site meetings. We were unable to determine whether or not the notes taken related to bid submissions, or were solely related to the scope of work to be undertaken.
- We noted that competitive bids received from contractors on turnover jobs sometimes reflected pricing that was similar. Interviews with some contractors noted that pricing could be similar as contractors were bidding competitively and knew what they were doing.
- In interviews, contractors stated that when necessary, for reasons of supplying expertise and meeting demand, they shared personnel. In one instance a contractor advised that he and a competitor shared ware-house space.
- One contractor reported receiving threats from competing contractors because he was "low-balling" prices in one particular portfolio. A review of this contractor's competitive bids for that portfolio in a specified time frame confirmed his low pricing. Interviews conducted revealed that while several people had heard of the threats to the contractor, no

individuals were able to supply evidence that would confirm that this took place. The contractor did not report any such incident to the police for investigation.

- As noted previously, it is at the discretion of the individual MC to determine who will be invited to bid.
- All MCs interviewed stated that they use contractors with whom they developed a good working relationship and whom they believed did quality work in a timely manner.
- The "Maintenance Coordinator Vacant Unit Inspection Form" was to be used as the scope of work (description of the work required for the turnover of a unit) document since the early 1990s. However, in fact, its use had been abandoned for some time and MCs were utilizing their own scope of work forms. A new scope of work form was developed for use effective November 2003.
- In many interviews with MCs we were told that due to extremely heavy workloads, they have not been able to conduct sufficient work completion reviews to ensure that contractors are complying with MHA specifications for turnovers.
- We reviewed data within the MMS to determine whether we could compare turnover pricing for work on similar units across housing portfolios awarded by MCs to various contractors. We found that such a review was not possible for several reasons:
  - The turnover work completed in any particular unit cannot be compared to any other similar unit unless the scopes of work for both units are equivalent. Unfortunately, details of the scopes of work prepared by the MCs were not required to be retained prior to a change in Department policy in October 2002. Such details have not been recorded in the MMS.
  - MCs tend to have different abilities to express themselves in written form. Although the written description of the scopes of work prepared by two MCs may seem similar, the actual work required to turnover a unit may be very different.
  - We were unable to rely on MMS data concerning turnovers as the recording of information was inconsistent and insufficient. Further details can be found in Chapter 11.

Conclusion

- *While we were told of several instances where it appeared contractors may have had the opportunity to arrange or agree on the pricing for their bids on a particular request for bids, we did not find any evidence that contractors bidding on turnover contracts with the MHA were colluding with one another to ensure that the bids submitted resulted in an equal distribution of the work amongst themselves at elevated prices.*

3.1.4 Theft of MHA Controlled Assets

Allegation #4

MHA employees were misappropriating assets under MHA control for their personal use and benefit.

Allegation #5

MHA employees were utilizing purchase orders provided to retail suppliers to purchase various goods for their own use and benefit, and that goods purchased were returned for cash which was not reimbursed to the MHA.

Findings

- The circumstances that gave rise to the allegations of theft of MHA controlled assets were provided in the memorandum from the MHA to the WPS. The memorandum alleged that between November of 1999 and February 2003, two MCs and one Building Superintendent misappropriated MHA controlled assets. The memorandum outlined the investigations undertaken by MHA staff and reported that in the above three cases, two of those responsible were terminated from their positions and the other resigned.
- During our investigation we noted that policies and procedures for the safekeeping and monitoring of MHA controlled assets were lacking. Further details can be found in Chapter II.
- Our interviews and review of available documentation indicated that other than these three incidents dealt with by the MHA we found no other similar activity on the part of any other MHA staff.

Conclusion

- *Although we did not find any instances of theft of MHA controlled assets, other than those previously referred to the Winnipeg Police Service, a lack of inventory controls within the MHA that fully document descriptions of MHA controlled assets, their location, and their movement within MHA properties creates an opportunity for the undetected misappropriation of those assets.*

3.1.5 Tenant Abandoned Goods

Allegation #6

Some MHA staff had misappropriated tenant abandoned goods.

The legislation relating to the abandonment of tenant's personal property is found in Part 7 of The Residential Tenancies Act. This Act is administered by the Residential Tenancies Branch (RTB) of the Department of Consumer and Corporate Affairs.

Section 106(1) of The Residential Tenancies Act states:

> *"Unless a landlord and tenant have made a specific agreement providing for the storage of personal property, when a tenant leaves personal property in a rental unit or residential complex that the tenant has vacated or abandoned, the landlord may*
>
> *a) remove and store the personal property; and*
>
> *b) with the approval of the director, sell or dispose of it in accordance with conditions set by the director."*

Section 106(2) of The Residential Tenancies Act states:

> *"A landlord who removes personal property under subsection (1) shall, at the earliest reasonable opportunity, give the director an inventory of the property in the prescribed form and, if the address of the tenant is known to the landlord, the landlord shall give the tenant a copy of the inventory."*

Section 106(3) of The Residential Tenancies Act states:

> *"When a landlord alleges that*
>
> *a) an item of personal property is of no monetary value or is unsanitary or unsafe to store; or*
>
> *b) the sale of the property would realize an amount that is less than the cost of removing, storing and selling it;*
>
> *the director may permit the landlord to dispose of the personal property in a manner and subject to conditions set by the director."*

Section 106(4) of The Residential Tenancies Act states:

> *"Property that is not disposed of under subsection (3) shall, subject to the direction of the director, be stored in a safe place and manner for at least 90 days."*

Section 107(1) of The Residential Tenancies Act states:

> *"If no person claims an item of personal property stored by the landlord within the 90 days referred to in subsection 106(4), or having claimed it, fails to remove it, the landlord may sell or dispose of the item in a manner and subject to conditions set by the director."*

Findings

- Our review of the MHA *Operating Manual* determined that the only reference to the subject of abandonment of tenant personal property appears in Module 2, Applications and Tenanting. In describing situations where rent has not been paid, the Rent Collection section states:

  > *"Where a tenant cannot be located, but many of the tenant's chattels remain in the rented unit, the District Office should contact the Residential Tenancies Branch for permission to store the chattels and for possession of the premises. The Residential Tenancies Branch will provide full instructions as to the duration of storage period and the procedure for the disposal of the chattels after the storage period has expired."*

- The Conflict of Interest section (issued March 2, 1995) of Module 1, Policy and Administration, of the MHA *Operating Manual*, states:

  > *"The acquisition and/or removal of material of any kind, for personal use, from sites owned by Manitoba Housing, or sites for which MHA is assigned responsibility, without prior written permission ... is not permissible."*

- During our interviews with some individuals we were told of the existence of a "pecking order" whereby some abandoned goods that were to be disposed of were taken by MCs and/or Building Superintendents for their personal use.

- We were also told by several individuals that we interviewed that goods were taken by MCs and/or Building Superintendents instead of being removed to a landfill site or given to a registered charity. This activity was purportedly widespread. For example, we were told that goods were removed by an MC from a vacant unit prior to the creation of an inventory list, contrary to the legislation noted above. One MC that we interviewed admitted that he had personally "recycled" some abandoned goods. However, other than this specific instance, these individuals could not provide direct evidence that these activities were taking place.

- Subsequent to the dismissal of an employee for the alleged theft of MHA property, a memo was sent on April 9, 2001 to all Winnipeg District staff from the Director of Winnipeg District Office. The memo noted that abandoned goods were to be processed through the RTB and that when the RTB allowed for disposal, the MHA could dispose of the goods only to a landfill sight or a registered charity. The memo further noted that goods were not to be taken by any MHA staff for any reason at all.

- Interviews with MCs and Building Superintendents confirmed that, subsequent to this memo, they believed that should they be caught with abandoned goods they would have their employment terminated. We were also told that subsequent to the memo of April 9, 2001, this activity has effectively ceased.

- Interviews and a review of documentation indicated that the MHA had no controls in place to determine that disposition of abandoned goods was properly completed. MCs would hire contractors to remove the goods to a designated disposal location. Confirmation of disposition to a landfill sight or registered charity was not required to be completed nor was the process monitored.
- The lack of a monitoring process is exemplified by a situation where some abandoned tenant personal goods, including a washing machine, were to be transported by a hired contractor to a storage site. The goods were never delivered to the storage site and the washing machine was sold by the contractor to a scrap dealer. This situation only became known when the tenant subsequently returned to claim these goods.

Conclusions

- *Based on our interviews we believe that misappropriation of tenant abandoned goods by some MHA staff occurred prior to April 2001. However, other than in one instance, we found no direct evidence confirming that this activity took place.*
- *A lack of a policy or procedure for monitoring the disposition of abandoned tenant personal property could result in the MHA being liable for the loss of these goods.*

3.1.6 Tendering and Bidding Practices

Allegation #7

The MHA did not follow appropriate tendering and bidding practices for the purchase of goods and services.

Findings

- The practice for obtaining bids and/or tenders was to comply with the authorized signing authority requirements as set out in the Province's *General Manual of Administration*. A purchase order was to be used for the acquisition of all goods and/or services with dollar limits based on signing authority levels.
- MHA staff informed the OAG that the purchase order process used for the acquisition of all goods and/or services was developed in 1992. In 1993 this process, as well as financial information they would require for the day-to-day operation of their portfolios, was explained to MHA maintenance personnel. It is this process, with some revisions, that has been continuously used on a day-to-day basis by MCs to facilitate all work in their portfolios.
- Effective February 15, 1994, the MHA Board approved a document entitled, *The Manitoba Housing Authority Policy and Procedures for the Tendering of Contracts*. This document established MHA requirements for

tendering and bidding any construction contracts including R&M, M&I and SSACs. In all cases three quotes were required.

- MMS was implemented on April 1, 2000 and since that implementation date all R&M purchase orders are issued through this system.
- On August 30, 2001, the Department's Director of Corporate Services issued a memo regarding the MHA purchasing process. This memo provided the guidelines summarized in **Figure 4**:

FIGURE 4

Purchase Price (including all taxes)	Action Required To Satisfy Competitive Process
Up to $700	No action, no quotes required
$700 - $2,000	Three quotes must be obtained and recorded, verbal is sufficient.
$2,000 - $5,000	Three written quotes must be obtained, recorded and retained on file (referred to as Invitational Tender).
$5,000 - $50,000	Three written quotes must be obtained, recorded and retained on file (referred to as Invitational Tender), at minimum a short form contract is to be completed.
$50,000 - $100,000	Invitational Tender
Over $100,000	Public Tender

Source: Manitoba Housing Authority

- Additionally, purchase orders on the MMS, required the following information:
  - A description of the type of goods or services purchased was to be entered in the purchase order detail line;
  - The unsuccessful contractor names (minimum two) and their tender amount for both verbal and written estimates were to be entered in the Remarks field of the purchase order; and
  - A brief description of the scope of work was to be entered in the Remarks field of the purchase order.
- MHA staff advised that the MMS will not allow purchase orders to be generated by unauthorized staff or by authorized staff in excess of their specific signing authority limits.
- We conducted a review of purchase orders generated by MCs through the MMS. We noted that the required description of the type of goods or services was minimal and a brief description of the scope of work was frequently lacking in detail or sometimes nonexistent.
- MHA practice has given MCs the responsibility for all aspects of the process for awarding R&M jobs estimated to be less than $2,000. This would include determining the scope of work, inviting contractors to bid, and the awarding of the contract based on those bids. It is the

responsibility of the MC to also verify that work specified in the scope of work has been properly completed.

- In a document dated April 17, 2002 and revised on October 21, 2002, the bidding process for turnovers was amended. A document titled, *Make Ready Procedure*, outlined the change implemented in May 2002, for the submission of bids on turnover projects. The new method required all contractors to submit bids by fax for all turnover projects on a "Contractor Bid Form" to a designated MHA staff member responsible for bid collection. The designated MHA staff member was to record the bids on a spreadsheet, known as a *Make Ready Tender Analysis*, and then forward the information to the responsible MC. The document further stated that it was the responsibility of the MC to review the spreadsheet and identify the lowest bidder for each unit. The MC was to then contact the lowest bidder and a purchase order was then issued for completion of the work.

- This new procedure did not require MCs to submit copies of the scopes of work to the designated staff member. Discussions with MHA management determined that the submission of the scope of work became mandatory on a prescribed form in November 2003.

- At the time of our review, no formal procedure was in place to verify that MCs were awarding turnover work to the lowest bidders. Area Maintenance Supervisors or other MHA management staff could review the *Make Ready Tender Analysis* and related MMS information to ensure that a proper awarding had taken place. However, we were informed that such review was infrequent.

- We obtained all copies of the *Make Ready Tender Analysis* spreadsheets prepared from May 2002 through to October 2003. We selected a sample of these spreadsheets which included jobs in all portfolios to confirm that the lowest bid was selected.

- Our sample included 32 spreadsheets from a total population of 328 spreadsheets. The 32 spreadsheets selected contained bids on 194 individual jobs. Of the 194 individual jobs contained in our sample 177 were properly awarded to the lowest bidder, 10 were not awarded to the lowest bidder but were satisfactorily explained, 6 jobs were never undertaken, and 1 was not awarded to the lowest bidder and had no satisfactory explanation.

- Although the bidding process for turnovers has been strengthened by requiring bids to be submitted to an independent designated MHA staff member, this procedure does not serve as an effective separation of duties because the MC is the person who scopes the work, invites bids, awards the work, and authorizes payment. The designated MHA staff member simply collects information and passes it on to the MC without follow-up or monitoring to see if the lowest bidder is awarded the contract by the MC.

Conclusion

- *Based on our interviews and review of documentation we found that current MHA tendering and bidding policies and procedures for the purchase of goods and services are being followed. However, these policies and procedures do not provide for an appropriate segregation of duties for MCs. As a result, there is an undue risk that MHA controlled assets may be misused.*

CHAPTER II

A REVIEW OF SYSTEMIC ISSUES AFFECTING THE MAINTENANCE BRANCH OF MHA

Chapter II

4.0 A Review of Systemic Issues Affecting the Maintenance Branch of MHA

Our investigation of the allegations of irregularities in the Maintenance Branch of MHA highlighted potential systemic problems within the organization. As a result, we reviewed for the following:

- Effective governance and management of the MHA housing stock (4.1);
- Availability of information for economical and efficient management decision making (4.2);
- Effective management of MHA inventory (4.3); and
- Positive morale and effective communication (4.4).

It is within these areas that we sought further understanding of the conditions within MHA from which the allegations arose.

4.1 MHA HOUSING STOCK IS NOT BEING GOVERNED AND MANAGED TO ENSURE THAT THE STOCK IS PROPERLY MAINTAINED, WITH DUE REGARD TO ECONOMY AND EFFICIENCY

4.1.1 No external stakeholder representation on the governing MHA and MHRC Boards and by-laws not current

MHA was incorporated under The Housing and Renewal Corporation Act in 1991. Under the provisions of this Act, the MHA Board is responsible to the Board of MHRC. In early 2000, a decision was made to hold meetings of the MHA and the MHRC Boards concurrently by having the same board members serve both entities.

In May 2000, By-Law #1 of the MHA Board, which governs the operations of MHA, was altered to reflect the above decision. Prior to the year 2000, except for the Deputy Minister of Housing, the MHA Board was made up entirely of members of the public. The newly constituted Board is now comprised entirely of civil servants (five of the six members from the Department). This change has effectively removed other stake-holder input into the decision-making on issues that affect the organization.

With these changes it was anticipated that MHA's policies and practices would be more closely in accordance with government direction and policy. The minutes of the initial meeting of this combined board held in July 2000, stated:

> *"It was noted that one of the major changes made recently to bring the boards into the main stream of government policy is that MHA policy decisions have been moved from the MHA Board into the Department. It*

was noted that MHRC/MHA Board will now review and ratify recommended policy changes rather than recommending policy changes to government."

The minutes further stated:

"It was noted that the board's role and responsibility is to balance protection of the corporate interests (including those of tenants) with government policy and direction."

The minutes also indicated that the Board received the following information concerning MHRC and MHA By-Laws:

"Existing MHRC by-laws were not provided to board members due to the volume of existing by-laws. It was noted that the existing MHRC by-laws are in need of review and revision to reflect current circumstances. Department staff will bring forward recommended changes to the MHRC by-laws in due course."

"MHA by-laws 2, 3 and 20 were received as information. It was noted that these three by-laws do not reflect current circumstances and that Department staff will provide recommended changes to the MHA by-laws in due course."

To date, these by-laws have not been updated to reflect current circumstances.

By-Law #1 of the MHA Board states that:

Article 9.0

"There shall be a chairperson, a vice-chairperson and a corporate secretary and such other officers as the board of directors may determine by by-law from time to time."

Article 10.2

"The chairperson, with the corporate secretary, or other officer appointed by the board for the purpose shall sign all by-laws."

The position of Corporate Secretary has been vacant since 1995. Since that time, a Department staff member has been performing some of the duties of the Corporate Secretary including the signing of by-laws and minutes of Board meetings. This staff member has never been formally appointed to the position and does not have signing authority.

4.1.2 Need for a long-term budgeting and funding process - M&I

The general purposes of MHA as defined in Section 23(10) of The Housing and Renewal Corporation Act are to manage and operate efficiently and equitably the provincial housing stock.

The MHA housing stock is aging. Most units were built during the late 1960s and 1970s. As the housing stock ages, the necessary repair and maintenance to upkeep these units as well as the need to upgrade heating, ventilation and air conditioning systems is becoming more costly. Cost of material and labour continues to increase. Interviews

with MHA management noted that budget allocations have not been sufficient to meet these maintenance needs. The issue of the cost of maintaining the housing stock has been ongoing since MHA's inception.

Another factor associated with increasing costs of maintaining the housing stock is the significant change in the demographic composition of the portfolios. This change was first recognized in the mid-1990s when the portfolios changed from housing primarily elderly and family tenants to housing a greater number of single non-elderly tenants. These new tenants included mental health patients who were being housed in the community at large as a result of changes in government policy.

Additionally, through interviews, we were told that a combination of low vacancy rates in the private housing sector in Winnipeg and a more lenient application of the screening process criteria, used by MHA to assess applications for public housing, contributed to the change in the demographic composition of the portfolios. Certain housing projects have experienced the impact on infrastructure of high crime, gang activity, juvenile prostitution, and violent incidents including damage and vandalism.

In 1997 the Department prepared a ten-year plan for required modernization and improvement of its public housing stock. This plan required major capital expenditures of approximately $97.3 million. The documented rationale for the needed funding levels indicated the following:

> *"Budgetary constraints have seriously limited the MHA's ability to complete regular maintenance of the aging housing stock as well as to respond to urgently required modernization and improvement. Urgent repairs often result in the deferral of preventative maintenance and upgrading the portfolio. Over the long run, deferred regular modernization and improvement results in a poorer condition of individual projects and more expensive repairs later on."*

Also in 1997, the Province established a $15.0 million Special Modernization and Improvement Provision Account to address the future funding requirements for increased M&I expenditures. With the signing of the Social Housing Agreement in 1998, a further $15.0 million was added to the Provision through negotiation with the Canada Mortgage and Housing Corporation.

In December 2002, the OAG released an audit report on the public housing program. This report noted that the level of actual funding for a four-year period (1998 to 2002) of the ten-year plan was $27.6 million below the identified needed funding for that period.

For the fiscal years ending March 31, 2002 and March 31, 2003 all M&I expenditures for direct-managed properties were funded from the Special M&I Provision Account. Considering the recognized ongoing need for "urgently required modernization and improvement" we noted that for the fiscal year ending March 31, 2002 the M&I provincial budget of approximately $6.2 million was not utilized and for the fiscal year ending March 31, 2003 the budget contained no provincial allocation for M&I.

In the spring and summer of 2002 an inspection process was introduced for the entire MHRC-owned housing stock to determine future requirements for M&I. We were informed

that these inspections involved inter-disciplinary staff teams, comprised of experts trained in building envelope, electrical systems, mechanical engineering and other disciplines. The detailed inspection results formed the basis for the development of a new five-year modernization and improvement plan.

In March 2003, based on the inspection results, the MHA prepared and submitted the new five-year plan to Treasury Board. The plan outlined $83.9 million of needed expenditures. These expenditures are shown in **Figure 5**.

FIGURE 5

Five-Year Modernization and Improvement Plan For Fiscal Years Ending March 31 (in millions)

2004	2005	2006	2007	2008	Total
$24.7	$19.5	$14.1	$12.9	$12.7	$83.9

Source: Manitoba Housing Authority

The submission was withdrawn by the Department when they recognized that the proposal required more detailed work. The intention and direction that they received from Treasury Board was that when their work is completed that they then return to Treasury Board. The five-year plan was resubmitted during the 2004/05 Estimates process. Approval was deferred pending a decision to allow MHRC to develop and implement a Tangible Capital Asset Policy independent of Provincial policy for M&I project expenditures. Treasury Board authorized MHRC to undertake its 2004/05 M&I (Capital) Program using the authority of The Loan Act, 2004, rather than the Appropriation process. The Loan Act, 2004 provides authority for the government to borrow for purposes other than to refinance debt.

Six years have passed since the inception of the initial ten-year plan. Approximately $83.9 million is the last estimate of funding required to complete needed upgrades on MHA's housing stock. MHA management confirmed that these budgetary concerns continue to exist at the present time.

Based on documentation available for our review, MHA does not have sufficient funding available to be able to meet its mandate to maintain and improve the quality of its existing housing stock and to provide an effective housing service to qualified Manitobans. Due to insufficient budget allocations, the condition of current housing stock of MHA is placed at risk.

4.1.3 Need for a long-term budgeting funding process - R&M

Budgets for the R&M function have not increased significantly over the last number of years. The MHA housing stock, as it ages, has required increasing amounts of money in order to be maintained. A senior MHA manager stated that *"there's a huge gap between the dollars available for maintenance and the needs that we're faced with"*.

In interviews, several contractors stated that MHA was wasting money by utilizing temporary R&M solutions rather than more complete M&I renovations to units.

Budget figures are based on finite allocations provided by the government. Similar to M&I as discussed in **Section 4.1.2**, R&M budgets have been insufficient to meet required needs. This situation is illustrated by the fact that in the March 31, 2002 fiscal year, MCs were instructed to curtail all but essential R&M expenditures several months before the fiscal year end.

As a result of a management decision, as noted earlier in **Figure 3** of this report, the vacancy rates in Winnipeg had been significantly reduced by the end of the March 31, 2001 fiscal year. This reduction was accomplished by means of an over-expenditure of the R&M budget in Winnipeg and an under utilization of the rural R&M budget in the March 31, 2000 and March 31, 2001 fiscal years.

With the 2001 reorganization and change in management, the emphasis changed from unit vacancy reduction to budget control. For the fiscal year ending March 31, 2002 the R&M budget for Winnipeg was under-spent by approximately $150,000 while the R&M budget for the Province as a whole for direct-managed properties was under-spent by approximately $650,000. For the fiscal year ending March 31, 2003 the R&M budget for Winnipeg was over-spent by approximately $85,000 while the R&M budget for the Province as a whole for direct-managed properties was under-spent by approximately $170,000.

Present management stated that they are significantly under-funded. However, since the 2001 reorganization, they have significantly under-spent both R&M and M&I budgets. An MHA manager stated in an interview, *"We saved too much and we could have used it on projects that needed doing. I think we were being a little over diligent on what we were doing. We just wanted to make sure that there was no way that we went over budget so we were really watching it."*

MHA staff indicated that the budgets for R&M expenditures within Winnipeg portfolios for the fiscal years ending March 31, 2003 and March 31, 2004 were determined by dividing allocated funding by the total number of units per portfolio. This method assumed that all units are alike across portfolios. It did not take into account that the types of units and the clientele within portfolios may differ.

An MHA senior manager indicated that prior to the year ended March 31, 2003 budgeting was based on the amount of funding that a portfolio was thought to require. This budgeting took into account the uniqueness of portfolios and their projects. Some portfolios had a higher turnover rate than other portfolios and this was factored into the budgeting process. We were informed that for the fiscal year ending March 31, 2005, the budget process reverted back to this method.

4.1.4 Incomplete inspection process

During the course of this review, MHA provided us with electronic copies of detailed project by project inspection documentation, prepared by the inspection teams, for the 2002 inspection process. This documentation detailed the needed repairs for all aspects of each project for a five-year period. The documentation contained both individual building and in-suite inspection forms, and locations for narrative reports on deficiencies and for supporting photographs.

We reviewed the detailed inspection documentation for 23 of the 158 individual projects for the direct-managed properties within the 10 portfolios in Winnipeg and we noted that supporting information was lacking. Of the 23 individual projects reviewed, we found that the Preliminary Information section was incomplete for 3 inspection forms; no narrative reports were completed for 15 projects, while those that were completed had only minimal information; and no photographs were included for 9 projects. On further review of the 10 portfolios, we noted that no narratives were written for any projects in 2 of the portfolios, no photographs were included for another portfolio, and no individual in-suite inspections forms were completed for any project in any portfolio.

The documentation provided minimal evidence to support the estimated costs for the identified repairs and lacked detail of how these repair costs were determined.

We noted that the Department did not use independent consulting engineers for determining the required repairs and costs, but rather utilized departmental staff. Although some of the inspection team members may not have had appropriate qualifications and expertise, these individuals were paired with team members who did have appropriate qualifications. We also noted that many inspections were completed by a qualified individual rather than by teams.

4.1.5 Policies and procedures are not complete nor current

MHA's *Operating Manual* was developed to consist of six modules as follows:

Module 1: Policy and Administration

Module 2: Applications and Tenanting

Module 3: Tenant/Community Relations

Module 4: Financial

Module 5: Contract Administration

Module 6: Maintenance

There are no formal policies within the *Operating Manual* relating to the maintenance function of MHA. Modules 1 and 2 were the only modules formally issued. Modules 3, 5 and 6 were drafted but not issued, and Module 4 was not drafted at the time of our review.

The Manitoba Housing Authority Policy and Procedures for the Tendering of Contracts, as noted in **Section 3.1.6**, established the MHA requirements for tendering and bidding any construction contracts including R&M, M&I and SSACs. This document was never incorporated into the *Operating Manual*.

MCs do not have a manual providing the policies and procedures required to perform their jobs within their portfolios. What exists are a number of procedures relating to the purchase of goods and services which have been incorporated within the MMS. MMS requires that these procedures be followed in order to complete transactions for goods and services. Additionally, we noted that some MCs have developed some of their own procedures to accomplish required tasks.

4.1.6 Supplier pre-approval is not conducted

An internal audit report of January 14, 1997, had recommended that the MHA *Operating Manual "include guidelines for developing, creating and maintaining source listings. Additions and deletions to the source listing should also be made in a controlled manner."* The "source listing" was the name for an approved vendor listing.

We reviewed the MHA *Operating Manual*. No policy or procedure exists for the development and maintenance of a MHA approved vendors list to this day.

As appendices to *The Manitoba Housing Authority Policy and Procedures for the Tendering of Contracts*, the "General Conditions" form requires that a contractor maintain liability insurance and damages to property insurance. The "Instructions to Bidders" form requires that a contractor provide evidence that they are currently registered and in good standing with the Workers Compensation Board of Manitoba.

With the implementation of the MMS, contractors who have satisfied the above two conditions and who wish to work for the MHA are listed and issued a vendor number within the MMS through a "Request To Add/Change Vendor Form". The vendor number is a requirement for the payment of vendor invoices. The request form is initiated by an MC and forwarded to the Accounts Payable Section for activation. There are no other specific criteria required of a vendor to be placed in the MMS vendor database.

The Saskatchewan Housing Corporation (SHC) requires that contractors must apply to be included in a general work registry. The registry is a database of information on contractors. The application requires information such as type of business, names of business officers, annual value of construction work, financial references, types of insurance held, a list of completed projects over the past five years, and preferred work regions. Applicants must be approved by the SHC management to be included in the registry. Registered contractors are invited to bid on work in their area of expertise and in regions where they prefer to work.

4.1.7 Based on our sample reviewed, Service Standing Agreement Contract (SSAC) services were performed by contractors at a reasonable cost

SSACs are contracts for the purchase of materials and/or services at a predetermined price covering a fixed period of time. Most of the SSACs are tendered annually, although in some cases, successful bidders are awarded a multi-year agreement consisting of renewable one-year contracts. The cost of these multi-year agreements is determined at the time of the initial bid. Non-renewal of these contracts would occur only in the case of unsatisfactory performance.

A listing of current tendered SSACs appears in **Appendix C**.

The Manitoba Housing Authority Policy and Procedures for the Tendering of Contracts is the authority for tendering SSACs. Using this document as the benchmark, we reviewed a total of 15 SSAC files from the three fiscal years ending March 31, 2001 to March 31, 2003. We examined the tender analysis process utilized by the MHA in determining which contractor should be awarded the contract. Once the tender analysis had been completed and the contract awarded, all bidders received a copy of the results.

We identified four anomalies in the tender awarding process.

- In one file we noted the involvement of senior Departmental administration in the tender award process. The contractor who had submitted the lowest bid had misinterpreted one aspect of his bid which resulted in his bid being lower than what it should have been. This contractor was informed that he could either withdraw his bid or leave it as it was. The contractor approached senior Departmental administration concerning his bid. Pursuant to legal advice a decision was made to allow the contractor to restate the misinterpreted aspect of his bid. Subsequent to the restatement, the contractor remained the low bidder and was awarded the contract.

- In another file, we noted that the contract was awarded based upon a points system analysis. MHA explained that this was a service contract where MHA would not be responsible for the payments related to the contract. In this instance, this type of analysis was thought to provide the best value. We agree with MHA's assessment.

- We found anomalies related to signing authority in two contracts. In one file, the contract amount exceeded the signing authority limit of the individual signing on behalf of MHA. In the other file, the term of the contract was for more than one year and did not have MHA Board approval as required by *The Manitoba Housing Authority Policy and Procedures for the Tendering of Contracts*.

The Manitoba Housing Authority Policy and Procedures for the Tendering of Contracts also states that for each contract whose value exceeds $25,000, *"one signed set of the Contract Documents will be sent to the Contractor, the other will be copied to a working file at the MHA, and the original will be forwarded to the Corporate Secretary to be indexed and filed"*. We were advised that original copies of contracts have not been forwarded to the Corporate Secretary by MHA.

We obtained standard price lists from several government organizations. These were obtained in order to compare the MHA payments for items included in SSACs to industry standard prices. As the majority of items listed on the standard price lists that we received were not analogous to the items in the SSACs, we were not able to compare all items. We were able to compare most costs related to appliance replacement, snow removal, suite cleaning and some costs related to window/screen replacement and repair, water and sewer line repair, furnace inspection and service, and domestic hot water tank replacement. The items that we were able to compare were similarly priced to the standard price lists obtained.

4.1.8 Supplier performance is not formally tracked with the exception of SSACs

The MHA has no formal policy in place to track vendors with unsatisfactory performance. However, there are practices currently in place to monitor unsatisfactory performance of SSAC contractors.

During the course of our review, we noted that in three SSAC files contractors were terminated for lack of performance. These terminations were based on a non-

performance clause contained in the "General Conditions" form within the contract which indicated that *"where the Contractor is in default, has failed or delayed in diligently executing the work, to the satisfaction of the Owner [MHA], and the Owner has given written notice thereof to the Contractor, the Owner may dismiss the Contractor".*

Two of the above three contractors have been restricted from bidding on SSACs in Winnipeg for a period of five years. Beginning in May 2003, a clause regarding bidding restrictions for unsatisfactory performance is included in SSACs.

The "Manitoba Housing Authority Position Description" for the MC position requires MCs to be responsible for ensuring that contractors are performing to the specifications of the contract. It is MHA practice that MCs document performance-related complaints and billing issues and forward the documentation to the Contract Administrator. The Contract Administrator then attempts to resolve these issues. When a significant number of complaints are received by the Contract Administrator concerning an individual contractor, the Contract Administrator informs MHA management of the situation.

During our review we noted another file that contained complaints from MCs about the performance of a contractor. An MHA senior manager informed us that although he was aware of these complaints, he had not acted upon them nor had he reviewed the related files to determine the extent of the problem. He also noted that when complaints were not acted upon, field staff tended to stop reporting their complaints even though the situations continued to exist.

In early 2003, MHA appointed a staff person to monitor contract compliance principally for SSACs with known problems where complaints had been documented by MCs.

4.1.9 MHA does not have standard cost estimates/ranges, nor standard specifications to assist in managing the reasonableness of the cost of goods and services provided by suppliers

MHA has not undertaken comparative pricing of their costs for goods and services with industry standards.

The standard pricing lists obtained for SSAC comparison as discussed in **Section 4.1.7** were also used to compare to individual purchased items not part of an SSAC. Most of the items on these lists were not comparable. However, we were able to select 20 items per portfolio in Winnipeg from purchase orders within the MMS and to compare those to the standard pricing lists. When the price of a purchased item appeared excessive when compared to the standard pricing list, we looked for a pattern of excessive pricing on that specific item. A further sample of 20 of these items that appeared to be excessively priced was selected for further review in which the corresponding invoice was examined to determine if the pricing was reasonable. All of the invoices that we examined had reasonable explanations for the prices invoiced.

In our sample we noted that the purchase orders prepared by the MCs in the MMS often contained insufficient detail as to the extent of the work required on a job. This created situations whereby there was an appearance of unreasonable costs associated with the extent of the work. Upon obtaining further detail the cost of goods and/or services was considered to be reasonable.

4.2 THE MHA INFORMATION SYSTEMS IN PLACE ARE NOT EFFECTIVE IN ASSISTING MANAGEMENT IN *DECISION MAKING*

The MMS is a database with a web-based computer reporting package developed for MHA for administrative, management, financial and planning needs. This system provides up-to-the-minute (real time) reporting from the MMS database. This system is utilized for creating purchase orders and for the recording and processing of all R&M work.

4.2.1 Information on average turnover cost is not available

Turnover projects comprise a significant component of expenditures of R&M funds within MHA. It is important for budget and cost control purposes that management be able to determine the average cost of a turnover for a specific type of unit or by any specific contractor.

In the course of our review we attempted to compare turnover expenditures for similar type units across all portfolios in Winnipeg utilizing the MMS. We were informed by management responsible for the MMS that this task would have required significant staff time to manually construct the required information as it is currently not possible to isolate and get accurate turnover costs from the MMS under its current configuration.

M&I expenditures are not currently included in the MMS. As a result, any M&I expenditures that form part of turnover costs, such as flooring, are not included in the MMS and therefore are not captured as part of these costs.

4.2.2 Need for MMS training

Both management and MCs have access to the current information available in the MMS. During the period of our review we found inconsistencies in the input of data into the expenditure categories within the MMS. A "how to" booklet was available showing staff how to utilize the various functions of the MMS. However, we noted that this booklet does not provide specific guidelines indicating where expenditures are to be categorized.

This lack of consistency in data input was particularly evident when tracking expenditures recorded by MCs as similar expenditures were being placed in different categories. This inconsistent recording of expenditures made the utilization of any comparative expenditure information unreliable.

Even if MMS had the capability to provide average turnover costs, inconsistent expenditure input would render this information unreliable.

During interviews, some staff noted that they received insufficient training for their positions, particularly with regards to the use of the MMS. Management acknowledged that the need for more and continuous training of MHA staff is a significant issue. More MMS training for all staff is essential.

4.2.3 MMS not used to full potential

Other than specific developed reports, the MMS has not been configured to accommodate data manipulation. The ability to make user-constructed queries or reports within the MMS is limited. For example, we had requested a report of information we considered necessary for our investigation but that would have provided useful management information. Although our requested report was produced within the MMS, we were informed that it had to be specially constructed and involved considerable programming time.

The MMS was only able to provide a report of payments by staff person(s) to any specific vendor and a report of all payments to a specific vendor by purchase order number without identifying the staff person involved. The report we requested provided a combination of these two reports by presenting all payments by a particular staff person(s) to all vendors over a specific time period. By providing a complete listing of all vendor activity for each staff person over a specific time period this report supplied us with detailed MC activity for comparative purposes in a timely manner. MHA management acknowledged that this report gave MHA "some incremental value-added" information for administration and management purposes.

The MMS contains several components. The reports in the management report component are not linked to each other nor are they linked to the component containing the database of purchase order transactions. In a situation such as our example above, information must be obtained from several reports to produce the needed data in an easy to use format. As a result of this difficulty users are discouraged from developing useful analyses.

As noted in **Section 4.2.1**, it is currently not possible to isolate and get accurate turnover costs from the MMS under its current configuration.

As also noted in **Section 4.2.1**, M&I expenditures are not currently included in the MMS.

The MMS includes a Components Module used wherein an inventory record of long-term assets is recorded. As noted in **Section 4.3.3** below, the Components Module has not been fully developed or utilized.

4.3 MHA INVENTORY IS NOT BEING EFFECTIVELY MANAGED

4.3.1 Lack of control over onsite supplies and materials

The MHA has no formal policy for the purchasing, recording and control of:

- Consumable goods (i.e., cleaning supplies, lights, doors, windows, stock items);
- Project equipment (i.e., shovels, rakes, lawn mowers, tractors, electrical tools);
- Office furniture (i.e., desks, chairs, filing cabinets); and
- Office equipment (i.e., fax machines, telephones, digital cameras).

This inventory is stored at various project sites within the portfolios and is usually purchased from retail hardware and contractor supply outlets with purchase orders issued by the MCs.

Inventory is counted and reported annually at year end. A memo with accompanying count sheets is sent to MCs who are responsible for ensuring that all inventory within the above noted categories is listed.

Inventory figures are collected for each individual project by the building superintendents and collated by the MC who submits a total listing and dollar value for the portfolio on a summary sheet to the MHA head office and subsequently forwarded to the Department. Through interviews with all levels of MHA staff we confirmed that there are no guidelines specifying which items must be recorded. Project equipment with serial numbers have those numbers recorded on the summary sheet. To date, no one has been verifying that the serial numbers of project equipment are accurately recorded and that the assets actually exist. The summary sheet listings are used solely to assess the reasonableness of on-hand portfolio inventory.

MHA has no method of tracking inventory on a perpetual basis at this time. Inventory materials are not tracked when they are moved from site to site for storage or used in a project. The inventory is simply a record of the dollar value of inventory on hand in each portfolio at year end. Purchases of inventory made throughout the year are not captured in the inventory records and as a result it is impossible to determine where inventory items were utilized.

4.3.2 No qualified purchasing agent in MHA

Over the three year period ended March 31, 2003, the MHA has spent approximately $15 million annually for the procurement of goods and services related to repair and maintenance for direct-managed properties.

In discussions with MHA management, we were told that while there was concern about theft of MHA controlled inventory, no steps had yet been taken to determine the financial significance of any inventory that may have been misappropriated. MHA management also related that current purchasing practices do not provide the best value to the organization.

Most purchases of goods and services are made by the MCs for the needs of their portfolios. SSACs are used to purchase some goods and services. However other than these SSACs the MHA does not utilize bulk purchasing techniques. MHA does not have a central purchasing function under the direction of a qualified purchasing agent that would establish additional SSACs, categorized by trade, for the purchase of high volume repair and maintenance materials and supplies.

4.3.3 MMS not effectively used to track long-term assets

The MMS includes a Components Module wherein an inventory record of long-term assets, such as appliances and ventilation, hot water and fire protection equipment, is recorded by project, building, and unit. MMS has the capacity to record the make, model and serial number, installation and removal date, estimate of life expectancy, warranty

information and location of each asset. Appliances are purchased from the current SSAC vendor by an MC on a purchase order which details the unit location of the appliance. When the corresponding invoice is received the make, model and serial number of the appliance is recorded in the MMS.

Currently the installation, removal date, estimate of life expectancy and warranty information functions are not utilized in this module and there is no link to the purchase order/payment module of MMS to provide the background information associated with each particular asset.

While the MMS has the capacity to track the transfer of an appliance from one location to another, we found that this application is not being used and consequently there is no paper or electronic trail to back up such a transfer. Also, the MMS does not track or maintain a record of consumable inventory and equipment used in everyday repair and maintenance.

In the initial phase of MMS development, the Components Module was well down the priority list of things to do. For that reason, it lacks the sophistication and competence of Requests, Purchase Orders/Payments and Budgets. However, it is a starting point for future value-added development.

4.4 MHA HAS SIGNIFICANT MORALE AND COMMUNICATIONS ISSUES THAT IMPACT THE EFFECTIVENESS OF THE ORGANIZATION GIVING RISE TO AN ENVIRONMENT WHICH FOSTERS MISTRUST AND SUSPICION

4.4.1 Workloads and change in responsibility contributed to poor morale

The reorganization of September 1997 altered the structure of the Winnipeg District R&M function. The workload of MCs was impacted by the reduction of MC positions and the approximate doubling of the number of housing units for which they were responsible.

The reorganization of the spring of 2001 gave MCs the added responsibility of supervising the building superintendents in their portfolios and the requirement to review, on a yearly basis, every unit in the portfolio for potential M&I work and for the reappraisal of every project for insurance purposes.

In interviews, MHA management acknowledged that MCs workload has increased. One MC described his job as encompassing a $1 million budget, 800 clients, supervision of 12 or more staff, 2,000 to 3,000 transactions per year including 230 to 260 turnovers, 60 to 140 phone calls per day, a much higher level of service to meet the needs of current clientele and a portion of M&I work.

MHA management informed us that although overtime did not have to be pre-approved, it was, however, scrutinized. It was expected that MCs should, unless there were exceptional circumstances, be able to perform their job within an eight-hour day. MCs related that they believed that overtime was discouraged.

We were provided with overtime records for MCs working in the 10 Winnipeg portfolios for a four-year period ending in March 2004. During that period MCs were occasionally required to work overtime related to call outs (responding to emergency situations on a 24 hour basis). Other documented overtime during that same period was minimal. However, MCs advised us that due to their heavy workload and management's expectation they performed significant amounts of overtime that they did not submit for compensation.

4.4.2 MHA does not have an inclusive communication process in the R&M function

Of the 11 current and former MHA staff that we interviewed who commented on the state of communication processes within the MHA, more than 90% considered these processes to be poor. As examples of poor communication, these individuals cited a lack of access to senior management, minimal information flowing downward in the organization, staff concerns of not being heard by management, staff fearful to talk about their problems, and when issues were presented to management there was nothing done.

In interviews we were told that rumour and innuendo is rampant throughout this organization. During these interviews many individuals related information that they had heard from others but were unable to substantiate with personal knowledge. Through the course of our investigation we have determined that much of this rumour had no basis in fact. We were also told that this situation is mainly the result of the poor communication practices within the MHA.

We were informed during interviews about a situation where many complaints had been received from MCs concerning the performance of a particular contractor. These complaints were discussed with management but management did not address the situation. A senior MHA manager stated that when complaints are sent in and nothing happens, the complaints stop coming.

We were informed that meetings between MHA management and MCs took place on a regular basis between the fall of 1997 and mid-1999. We were given copies of the minutes of twenty-two meetings held during this time frame. Subsequent to this time frame, very few such meetings have taken place. Following the 2001 reorganization the MHA management initiated a meeting with each MC and with groups of the Building Superintendents. Interviews with the MHA management confirmed that follow-up meetings were planned but never took place. Since the 2001 reorganization, formal opportunities for MCs and Building Superintendents to discuss job functions with management or amongst themselves have been considerably curtailed.

Where employees do not believe they have open access to MHA management to discuss job related issues, they may turn to alternative means to voice their concerns. For example, in early 2000, two MCs approached the Minister's Office asking for a meeting to discuss concerns including heavy workload and its distribution, staff being fearful to talk to management, lack of direction from management, and staff morale. In our interviews with the two MCs they related that these topics are still relevant today.

4.4.3 MHA has poor morale which in turn can contribute to hearsay

Of the 11 current and former MHA staff that we interviewed who commented on the state of morale within the MHA, more than 80% considered morale to be poor. Reasons cited included heavy workloads, poor communication and other issues as noted below.

In the reorganization in the spring of 2001, the M&I and R&M staff functions within the MHA Maintenance Branch were integrated and the M&I moved from 280 Broadway to the MHA head office at 185 Smith Street. M&I management then became responsible for the operation of the integrated maintenance function. Interviews with this new management indicated that they considered that their mandate was to bring the R&M budgets under control.

In order to meet this mandate, a number of operational and personnel changes occurred. Some long-serving R&M personnel were reassigned and two Area Maintenance Supervisors and a Manager of Security and Loss Prevention were hired. The Area Maintenance Supervisors and the Manager of Security and Loss Prevention were to provide more direct supervision, conduct audits and generally strengthen the R&M control procedures. Situations were subsequently uncovered that led to some dismissals of staff and an increased questioning of all aspects of expenditures and conduct by staff.

We were told that as a result of this increased scrutiny, MHA staff had become resentful, demoralized and concerned about this new administration. MHA staff stated in interviews that individuals with lesser qualifications were being promoted ahead of others with superior qualifications. An "us versus them" mentality developed and these perceptions were reinforced by the reclassification and promotion of some M&I personnel to higher paying positions. An MHA manager explained that the rationale for the reclassifications was to keep quality personnel from leaving the MHA for identical but higher paying positions within the Department.

An MHA manager expressed in an interview that he understood why MCs are frustrated in their jobs. He noted that every year MCs would be asked what they needed to do their jobs, and every year due to budget constraints those requests could not be met.

Some MHA staff expressed the feeling that everybody was under suspicion and this constant scrutiny and the heavy workload of staff has led to an increasingly stressful environment. MHA management stated that since the reorganization of 2001, they have had to deal with many performance issues with MHA staff.

CHAPTER III

MHA PROGRESS ON AUDIT RECOMMENDATIONS IN THE OAG REPORT OF DECEMBER 2002

Chapter III

5.0 MHA Progress on Audit Recommendations in the OAG Report of December 2002

In December 2002 the OAG released a Value-for-Money Audits (VFM) report on the Public Housing Program within the Department. The VFM report dealt with and made recommendations concerning some of the same issues raised in this report. Those recommendations and the actions taken by the Department to comply with them are presented below. We requested that MHA provide commentary on the status of each recommendation as presented below.

Recommendation 1

We recommend that MHA perform inspections of all housing projects using appropriately detailed standardized inspection guides, and that these inspections be conducted at regular intervals of 2 to 3 years.

Findings

- An inspection of all housing projects was conducted in the spring and summer of 2002. In our review of the 2002 inspection data provided to us, we noted that inspection forms were not fully utilized and that the documentation provided minimal evidence to support the estimated costs for the identified repairs and lacked detail of how these repair costs were determined.
- We were informed that a subsequent inspection has been scheduled for 2005.

COMMENTS OF OFFICIALS

The first round of inspections of the MHA managed portfolio was completed between April and August 2002. These inspections were conducted using cross-disciplinary teams of trained technical staff, experts in their fields. All projects within the MHA portfolio were inspected, concentrating on building structures and components, using detailed inspection guides. In multi-unit buildings, a 10% sampling of units was also completed. Sample packages of the detailed inspection criteria and forms have been provided to the OAG. Re-inspection by cross-disciplinary teams of technical staff are again planned for the summer of 2005. Annual inspections of all units by maintenance coordinators are also ongoing.

Recommendation 2

We recommend that MHA act on the results of the visual inspections conducted by our Office.

Finding

- The scope of our audit did not include a review of M&I activities conducted by the MHA. MHA management provided verification that the projects identified in our visual inspections were included in the inspection process of 2002 and identified repairs were ranked according to a determined priority level.

COMMENTS OF OFFICIALS

The 2002 inspection process included all projects visually inspected by the OAG prior to the release of the 2002 report. Items considered immediate were acted on. Items that were not considered to be required immediately have been incorporated into the five-year plan as appropriate.

Recommendation 3

We recommend that an appropriately detailed process be developed to rank repairs as to their relative importance and that these rankings be used to allocate available funds.

Findings

- For the inspection process of 2002, the MHA used five priority levels to rank repairs as to their relative importance. The five priorities were life/health/safety, structural integrity, legislative requirement, building functionality and cost effective initiatives (energy savings).
- During our review of the 2002 inspection process we noted that almost all repairs were determined to be in the same priority category, namely, building functionality.
- Items in the building functionality category were reviewed by MCs and MHA management to determine relative priority of each repair based on immediate need and available dollars. This determination was used to set the yearly budgets within the five-year capital plan.

COMMENTS OF OFFICIALS

This process will continue to be utilized in future five-year plans. Priorization of projects within the "building functionality" category will continue to be based on visual inspection and professional judgment.

Recommendation 4

We recommend that all needed major repairs be scheduled in the ten-year major repair plans for each project, and that the plan track the deferral of any needed major repairs.

Findings

- In March 2003, based on the inspection process results, the MHA prepared and submitted a new five-year plan to Treasury Board. The plan outlined $83.9 million of needed expenditures. The submission was withdrawn by the Department when they recognized that the proposal required more detailed work. The intention and direction that they received from Treasury Board was that when their work was completed that they then return to Treasury Board.
- The five-year plan was resubmitted during the 2004/05 Estimates process. Approval was deferred pending a decision to allow MHRC to develop and implement a Tangible Capital Asset Policy independent of Provincial policy for M&I project expenditures.
- Treasury Board authorized MHRC to undertake its 2004/05 M&I (Capital) Program using the authority of The Loan Act, 2004, rather than the Appropriation process. The Loan Act, 2004 provides authority for the government to borrow for purposes other than to refinance debt.

COMMENTS OF OFFICIALS

This has been completed as recommended with the implementation of the five-year plan in August 2002, which includes updating on a regular basis. All work identified in the five-year plan for each given year is tracked and adjusted accordingly. Work that is deferred forms part of the following year's plan.

Recommendation 5

We recommend that the Department annually advise Treasury Board of:

- **the estimated level of expenditures needed for each of the next ten years to achieve an appropriate balance of housing stock in good and fair condition; and**
- **the major repairs that have been deferred because of limited funding and the project specific risks associated with deferring the major repairs.**

Findings

- See Findings under Recommendation 4.

COMMENTS OF OFFICIALS

The MHA will continue to advise Treasury Board annually of the estimated level of expenditures reflected through the five-year planning process. The MHA will also continue to track major repairs that have been deferred, as has been done since the introduction of the new process in 2002.

Recommendation 6

We recommend that the MHA develop life expectancies for key building elements and that the MHA and the Department work cooperatively to develop a consistent approach for using life expectancies of building elements in establishing priorities.

Findings

- The scope of our audit did not include a review of M&I activities conducted by the MHA. We requested verification that the MHA has developed life expectancies for key building elements and is using these elements in establishing priorities.
- MHA management informed us that they base their approach to establishing priorities on the physical inspection process. The budgeting process includes contingencies for unanticipated capital expenditures.
- MHA has hired summer students who are used to input capital related data including the age of assets and other related information into the MMS.

COMMENTS OF OFFICIALS

The MHA agrees that life expectancies may be a useful guide in long-term planning and, as a result, have developed realistic life expectancies. The MHA continues to use a model of performing annual inspections and relies on the professional judgment of staff in order to make decisions as to the life expectancy of a property, item or building component with actual replacements being made on an as required basis.

Recommendation 7

We recommend that the Department develop indicators of the adequacy of the maintenance program, gather and analyze the requisite information, and develop and act on strategies to improve performance.

Findings

- We noted earlier in this report that the MMS has not been utilized to its full potential. As such, management does not have access to all necessary information in order to make informed decisions. Other than specific developed reports, the MMS has not been configured to accommodate data manipulation. The ability to make user-constructed queries or reports within the MMS is limited.
- MHA management informed us that performance indicators will be developed and included in a planned updated version of the MMS. MHA management was uncertain as to when the updated version of the MMS would become operational.

COMMENTS OF OFFICIALS

Requirements definition of Phase II of MMS has been scoped in an effort to continue to improve the utility and performance of the maintenance effort. These improvements include the ability to accommodate data manipulation and user-constructed queries.

Recommendation 8

We recommend that the MHA implement a more structured and documented preventive maintenance program. Such a program should include checklists of preventive maintenance tasks by building component and schedules for each task.

Finding

- MHA has developed a *Preventative Maintenance Procedure Manual for MHA Buildings*. These manuals document preventative maintenance techniques for a wide variety of building equipment and includes an inspection checklist form detailing inspection dates.

COMMENTS OF OFFICIALS

This has been introduced in most Districts and will be ongoing until completed.

Recommendation 12

We recommend that MHA and the Department develop appropriate documentation standards for the ten-year major repair plans. These standards should include documenting:

- **the bases and logic for determining cost estimates; and**
- **the rationale for an item's relative priority, including the impact of the item's estimated life expectancy on the priority decision.**

Findings

- See Findings under Recommendations 3 and 6.

COMMENTS OF OFFICIALS

The cross-disciplinary inspections were undertaken by trained professionals, experts in their fields, who were responsible for identifying the repairs and estimating the costs based on industry standards. Cost estimates are based on a schedule of building components/per unit costs, in addition to a project manager's practical experience/professional judgment in order to factor in any unforeseen costs extra to the base item costs. Information regarding schedules, inspection forms and inspections have been provided to the OAG. Documentation standards have been introduced. Prioritization of projects within the "building functionality" category will continue to be based on visual inspection and professional judgment.

Recommendation 13

We recommend that MHA and the Department develop a database of the complete maintenance effort.

Finding

- M&I information continues to reside outside of the MMS. MHA management informed us that M&I information will be included in an updated version of the MMS.

COMMENTS OF OFFICIALS

With the further implementation of MMS, a comprehensive database of the maintenance effort is being created on a go-forward basis and data entry is ongoing. Phase 2 of MMS is currently in the planning stages.

Recommendation 14

We recommend that the Department and MHA develop centralized appliance inventories and replacement plans for their respective portfolios of housing projects.

Findings

- Centralized inventories for long-term assets such as appliances and ventilation, hot water and fire protection equipment are present in the MMS. However, not all asset data has been entered into the system and no replacement plans for these assets have been established.
- MHA has hired summer students who are used to input capital related data including the age of assets and other related information into the MMS.

COMMENTS OF OFFICIALS

During the audit period MMS was not yet fully operational across the Province. Centralized appliance inventories and replacement history are now kept in the MMS. Some data entry remains to be done and expected completion of data entry for the MHA portfolio is during the calendar year 2004. Replacement of appliances by the MHA continues to be based on functionality and replacement of working units is not considered at this time regardless of age.

Overall Conclusion on Chapter III

Based on our review, we believe that further work is required by MHA in order to implement the audit recommendations contained in the OAG report of December 2002.

6.0 Recommendations

Financial

- That the Department annually advise Treasury Board:
  - Of the estimated level of expenditures noted for each of the next five years through the submission of the five-year plan in order to ensure that the housing stock is maintained in good and fair condition; and
  - Of the major repairs that have been deferred because of funding limitations and the risks associated with deferring these major repairs.
- That MHA revisit the conduct of and documentation related to the inspection process to ensure that the estimates of cost are sufficiently documented and supported.

Human Resources

- That MHA undertake a review of the Maintenance Coordinator job description in order to assess the appropriateness of current staffing levels and workload distribution.
- That MHA develop and implement a formal ethics policy and training for all MHA staff.
- That MHA develop and implement a dedicated ethics phone line and/or e-mail box to provide an opportunity for staff members, who may wish to remain anonymous, to report unethical behaviour or statutory violations and/or to seek guidance when faced with ethical dilemmas.
- That MHA consider a central purchasing function under the direction of a qualified purchasing officer that would establish Service Standing Agreement Contracts, categorized by trade, for the purchase of high volume repair and maintenance materials and supplies.

Communications

- That MHA re-establish regular staff meetings between Maintenance Coordinators and Building Superintendents, and their supervisors.
- That MHA establish internal communication policies, where appropriate, to ensure that all concerns and issues identified to management are acted upon and the results are communicated to those concerned in a timely manner.
- That MHA establish quarterly meetings between executive level managers and senior managers from each of the business lines so that all management are sufficiently informed and so are able to meet the goals and directions of the organization.

Policies and Procedures

- That MHA complete their development of policies and procedures. These policies and procedures should address management of the tendering process.
- That MHA review the current tendering process to establish an appropriate segregation of duties whereby no individual in any staff position is involved in more than one phase of the process.
- That MHA develop supplier service evaluation criteria and procedures to identify and assess vendors' qualifications and develop an approved listing of vendors. These policies should, at a minimum, include processes for verifying qualifications; monitoring contract performance; and, a documented process for the termination of contracts.
- That MHA develop internal policies that reflect, and are consistent with, The Residential Tenancies Act provisions for the disposition of abandoned tenant property. These policies should, at a minimum, provide guidance on storage and security; provide for random monitoring of inventoried items; and, controls to ensure the goods are disposed of in the manner directed by Residential Tenancies Branch.

Inventory

- That MHA implement a perpetual inventory system that would allow them to identify and monitor the ongoing purchase and disposition of office furniture, office equipment, project equipment and consumable goods.

MMS

- That MHA develop detailed rules for the input of data into the MMS along with system enhancements which direct the input of selections to accomplish consistent categorization of expenses. Proper categorization would allow management to receive accurate and consistent information on a timely basis.
- That MHA provide a comprehensive and ongoing training program for all MMS users.
- That MHA consider developing processes to compare MHA costing with industry standards to ensure that MHA is paying reasonable prices.
- That MHA undertake a review to assess the functionality of the MMS and its interface with other accounting and control systems used by the Department.

Governance

- That the MHA review Board membership and revisit the concept of stakeholder representation on the Board.
- That the MHA Board formally appoints a Corporate Secretary as required by By-Law #1.

Follow-up on 2002 Recommendations

That considering the current needs of the aging MHA housing stock, we recommend that MHA make every effort to complete the implementation of the audit recommendations contained in the OAG report of December 2002 in a timely manner.

7.0 MHA Response

The MHA worked collaboratively with the Auditor General's Office in its conduct of the investigation into the allegations of potential irregularities. Management takes these matters very seriously and investigates concerns fully.

The MHA continues to transition its business in an effort to continue to improve performance. Some MHA changes that have been implemented to improve the maintenance effort include:

- *Responsibility for maintenance of properties and for capital projects was consolidated in the Maintenance Branch.*
- *The MHA has improved the management of staff and related activities by adding the following new positions:*
  - *Four District Maintenance Supervisors,*
  - *Manager, Security & Loss Prevention.*

  These positions have enabled systemic changes to tendering practices and procedures, closer scrutiny and management of operating budgets, and improvements to MMS.
- *The MHA has increased accountability through structured monthly internal audits of the MMS purchasing system.*
- *The MHA has created and distributed an Operating Standards Manual to all staff in order to provide a standard of expectations and methods for undertaking daily activities. Development of the Operating Standards Manual involved a review of all activities, processes and procedures.*

Requirements of Phase 2 of the Maintenance Management System (MMS) have been scoped, which will enhance the utility of the systems. In February 2004, the MHA added a new staff position whose responsibilities include operational support for MMS (help desk, security administration, and data administration) and user training. Inventory control strategies are in the process of being reviewed and enhanced. The MHA's 2003/04 annual inventories were verified to ensure accuracy.

Management recognizes that our staff are our most valuable resource and value their comments and contributions. We will continue to work with staff to improve lines of communication and job satisfaction. The MHA anticipates that overall morale will improve with the completion of this investigation.

Management has followed up on recommendations of the 2002 Value-for-Money Audit and remains committed to continuous improvement of the operations of the MHA.

In general, management accepts the Auditor General's recommendations contained in this report, noting that these recommendations represent a point in time. Significant changes continue to be made by management of the MHA as we continue to improve operations and strengthen operating policies which in recent years have become more stringent and consistent. Management comments related to the specific recommendations contained in this report follow:

- ***Financial:***

  In 2002, the long-term capital plan was fundamentally revised and a dynamic process has been actively maintained since 2002. The MHA will continue to advise Treasury Board annually of the estimated level of expenditures reflected through the five year planning process. The MHA will also continue to track major repairs that have been deferred, as has been done since the introduction of the new process in 2002.

  The MHA continues to transition its business in an effort to continue to improve the performance of the maintenance effort. Changes included the introduction of a cross-disciplinary inspection process which was implemented in 2002 and will be repeated in 2005. On an annual basis, inspections also continue to be undertaken by maintenance coordinators. In 2002, the revised inspection process also introduced a new report/documentation framework. Enhancements to inspection procedures and/or documentation standards will be incorporated in the upcoming inspections in 2005 as appropriate. The MHA will provide appropriate procedures and training regarding documentation standards to the cross-disciplinary staff that will be conducting the inspections in 2005.

  The cross-disciplinary inspections were undertaken by trained professionals, experts in their fields, who were responsible for identifying the repairs and estimating the costs based on industry standards. Cost estimates are based on a schedule of building components/per unit costs, in addition to project managers' practical experience/professional judgment in order to factor in any unforeseen costs extra to the base item costs.

- ***Human Resources:***

  In May 2003, the MHA developed and implemented a number of ethics-related policies including Conflict of Interest Guidelines, Standards of Employee Conduct and a Positive Work Environment Policy. The MHA will continue to develop and implement additional policies and training as appropriate. Bulk purchasing options are under consideration. The MHA continues to transition its business in an effort to continue to improve the performance of the maintenance

effort. The MHA will continue to work with staff to streamline processes, enhance efficiency and ensure that the divisions of responsibilities are appropriate. Management will consider the OAG's suggestion of the creation of a dedicated ethics phone line and/or email box.

- ***Communications:***

  Management recognizes that our staff is our most valuable resource and value their comments and contributions. MHA management will continue to work with staff to improve lines of communication and job satisfaction.

- ***Policies and Procedures:***

  The MHA continues to transition its business in an effort to continue to improve the performance of the maintenance effort. Manuals that provide direction to MHA maintenance staff have been developed and implemented.

  The MHA Operating Manual that existed prior to 1999 was identified by the MHA as requiring redrafting to address policy and operational deficiencies. Appropriate manuals that provide direction to MHA maintenance staff have been developed and implemented as required. A Maintenance Operating Standards Manual was developed and issued to all MCs in June 2004 which details policies and procedures to provide direction and support of their duties.

  Further, a MMS User Manual was introduced with the implementation of MMS in 2000. This user manual currently consists of the following modules:

  - *Goals and Deliverables,*
  - *Business Rules,*
  - *Definitions,*
  - *Procedure Guide,*
  - *Reports,*
  - *Portfolio Inventory.*

  The MHA maintains a vendor/supplier listing, to which new vendors are added when they become "successful bidders". An appropriate "vendor add" form and process/criteria has been developed. Currently the MHA is in the process of refining and implementing the Supplier Approval Application Process for new vendors.

  The MHA has made a fundamental shift from individual contracts administered by MCs to centralized SSACs to the extent possible. Supplier performance is formally tracked under a SSAC. The MHA is in the process of refining and implementing processes for tracking supplier performance for those non-SSAC contracts that remain.

Enhancements to MHA's policy regarding the disposition of abandoned tenant property is under development. Currently the practice is to follow RTB guidelines. The MHA will continue to develop this and other policies to enhance the management and disposition of abandoned tenant property.

- ***Inventory:***

  Overall inventory control strategies are in the process of being reviewed and enhanced. The first phase of MMS was implemented in 2000 and is used by all MHA maintenance staff to organize, execute and track non-capital maintenance efforts that result in the expenditure of funds. Once fully implemented, MMS will provide a comprehensive database of the maintenance effort on a go-forward basis. Requirements of Phase 2 MMS have been scoped, which will include system enhancements to continue to improve the utility and the performance of the maintenance effort.

  A MMS User Manual was introduced with the implementation of MMS in 2000. This user manual currently consists of the following modules:

  - *Goals and Deliverables,*
  - *Business Rules,*
  - *Definitions,*
  - *Procedure Guide,*
  - *Reports,*
  - *Portfolio Inventory.*

  Compliance audits related to MMS identify issues for follow-up training. In February 2004, the MHA added a new staff position whose responsibilities include providing operational support for MMS (help desk, security administration, and data administration) and user training. In May 2004, training with respect to MMS Business Procedures – Monthly Procedures Compliance Review was undertaken for all staff involved in the Maintenance function province-wide.

  MHA's 2003/04 annual inventories were verified to ensure accuracy.

- ***MMS:***

  The first phase of MMS was implemented in 2000 and is used by all MHA maintenance staff to organize, execute and track non-capital maintenance efforts that result in the expenditure of funds. Once fully implemented, MMS will provide a comprehensive database of the maintenance effort on a go-forward basis. Requirements of Phase 2 MMS have been scoped, which will include system enhancements to continue to improve the utility and the performance of the maintenance effort.

  A MMS User Manual was introduced with the implementation of MMS in 2000. This user manual currently consists of the following modules:

- *Goals and Deliverables*
- *Business Rules*
- *Definitions*
- *Procedure Guide*
- *Reports*
- *Portfolio Inventory*

Compliance audits related to MMS identify issues for follow-up training. In February 2004, the MHA added a new staff position whose responsibilities include providing operational support for MMS (help desk, security administration, and data administration) and user training. In May 2004, training with respect to MMS Business Procedures – Monthly Procedures Compliance Review was undertaken for all staff involved in the Maintenance function province-wide.

- ***Governance:***

  Recommendations regarding organization and governance will be considered as appropriate.

- ***Follow-up on 2002 Recommendations:***

  The MHA has followed up on recommendations of the 2002 Value for Money Audit and remains committed to continuous improvement of the operations of the MHA.

With regard to the Auditor's statements that the scope of the investigation was impacted by the availability of records, management wishes to advise that the documents in question were not being held by the MHA for the OAG's use in the investigation. The documents/files were removed from the St. Mary's Road Satellite Office prior to the start of the OAG's investigation. These documents were removed to prepare the office space for a new maintenance coordinator, as the office space and filing cabinets were limited. The files in question were old historical project files and were not considered at that time to be pertinent to current operations. The MHA moved these documents to its headquarters, to be stored in an area reserved for old files, for the use of the new maintenance coordinator if the need arose. After the OAG requested these files, the MHA determined that the boxes containing the old files had been removed from the storage area and could not be located. The MHA suspects that the boxes were accidentally labeled for shredding, and were removed with other boxes labeled for shredding, and subsequently destroyed. Efforts to retrieve these records were unsuccessful.

APPENDICES

Appendix A

GLOSSARY OF TERMS

Administrative Directive	A specific request from the Administrative or Management level to perform work on a particular housing unit in a portfolio.
Building Superintendent/ Caretaker	An employee of the MHA with the direct responsibility for the day-to-day operations, including tenant maintenance requests, of a project or group of projects in a portfolio.
Component Module	A module within the MMS in which appliances amongst other items are inventoried. The module contains fields for recording the location, make, model, serial number, and other information concerning these items.
Contractor Bid Form	An MHA form used by contractors for submitting bids. This form includes the contractor's name, month, portfolio number and the addresses and price before taxes of each unit being quoted.
Emergency	Commodities and/or services required to avert a threat to life, health, property or security. This need is immediate, precluding normal purchasing procedures.
Floater	A Maintenance Coordinator working out of the central office who replaces MCs absent from work for holidays or illness.
Housing Unit	A dwelling (apartment, townhouse, house) that houses an individual family. For example, a 20 suite apartment building would contain 20 housing units. A single family home would be one housing unit.
Invitational Tenders	Restricted to invited participants to provide written offers (bids) to contract for goods or services at a specified cost or rate. Generally used for work up to $100,000. This form of tender is also used for emergency work and work involving abuse/crisis centers.
Maintenance	The work required to keep a housing unit in proper condition.
Maintenance Coordinator (MC)	An MHA employee who coordinates the planned and preventative maintenance activities and maintenance repairs within a portfolio. The coordinator provides technical advice to area and satellite offices in support of safe, healthy and well-maintained accommodation. The coordinator is also responsible for supervising building superintendents.

Appendix A
(cont'd.)

GLOSSARY OF TERMS (CONT'D.)

Maintenance Management System (MMS)	A web-based computer reporting package developed in-house for MHA for administrative, management, financial and planning needs. This system provides up-to-the-minute (real time) reporting from the MMS database. The maintenance coordinators utilize this system for creating purchase orders and for the processing and recording of all repair and maintenance work.
Make Ready	A method of performing a unit turnover whereby all of the work is performed by contractors, as opposed to the use of in-house labour.
MHA Standard Form Contract (Short Form Contract)	An abbreviated contract used when maintenance work exceeds $5,000 and is less than $25,000. Three written bids are required. The short form includes both the tender information and, when duly executed by the designated representative of the Department of Housing/MHA it becomes the actual contract for the work to be undertaken.
Modernization and Improvement (M&I)	The function within the MHA responsible for ensuring that the assets (housing units) are updated and raised to a more desirable or higher quality. This usually involves the spending of more than $5,000 for such improvements as new roofs, flooring and other more expensive items. These types of improvements are often referred to as capital expenditures.
Order-in-Council (OIC)	An order made by the Lieutenant Governor in Council with the advice of the Executive Council (Cabinet), sometimes under statutory authority or royal prerogative – common types are: regulations, fees, transfers, appointments, grants, agreements including Federal/Provincial, selling Crown land, and loans.
Points System Analysis	A form of analysis used for contract submissions that are at "no cost" to the sponsoring organization. As the cost to the organization is not an issue a set of weighted criteria using such items as equipment and facilities are used to rate the submissions.
Portfolio	A geographic area containing a number of Projects. Winnipeg is divided into 10 portfolios each containing approximately 800 housing units.
Project	A group of housing units. A project can be one-high rise apartment or a cluster of various building types.

GLOSSARY OF TERMS (CONT'D.)

Appendix A
(cont'd.)

Property Manager (PM)	An MHA employee responsible for offering and managing rental units within a portfolio. Using the Tenant Management System (TMS) the employee also records rent collections and arrears, and vacancies as they come due.
Public Housing	Housing owned by government.
Public Tender	Open to any company through public advertisements to provide written offers (bids) to contract for goods or services at a specified rate or cost. All work with a cost of greater than $100,000 must be publicly tendered.
Repairs and Maintenance (R&M)	The function within the MHA responsible for the day-to-day repairs and upkeep of the housing units. All tenant turnovers fall into this category.
Scope of Work	A brief description of the repair and maintenance work required to ensure that a housing unit is ready for occupancy. A scope of work is also used for work involving damages from vandalism and other ongoing maintenance items.
Service Standing Agreement Contract (SSAC)	A contract for the purchase of materials and/or services at a predetermined price and for a fixed duration of time. These contracts remove the requirement of having to obtain 3 bids for materials and/or services that are routine in nature and easily defined. These contracts are sometimes referred to as bulk tenders.
Standard Instructions to Bidders	A standard form of minimum instructions to bidders that all tenders must include. This separate form must include all: bidders agreements and understandings; duration of the bid; geographical locations; disclaimer of tender and intents; WCB registration; GST registration; price inclusions; and all other specific instructions for the specific work to be performed.
Standard General Conditions	Defines the general terms and standard conditions of the Contract. This separate form is used to convey the following basic information: Contractor indemnification; minimum insurance clauses; understanding of works and documentation; compliance with by-laws and codes; assignment (subcontract) of Contract; Contractor in default or defects/deficiencies in work; Contractors obligation to safety; and all other conditions detailed for the specific work to be performed.

Appendix A
(cont'd.)

GLOSSARY OF TERMS (CONT'D.)

Tenant Management System (TMS)	A web-based computer reporting package developed in-house for administrative, management, financial and planning needs. This system tracks Manitobans' applications for placement in Manitoba's owned and operated housing projects and placing qualified applicants into available units. It is an assessment tool for chronic vacancies, turnovers and low vacancies, a monitoring tool for revenues and arrears as well as a reporting tool for activities, auditing and compliance.
Tenderers (bidders)	The contractors who provide written offers for the contracting for goods or services at a specified rate or cost for both Invitational and Public tenders.
Turnkey	The method of performing the work of a turnover whereby the work is tendered to a single contractor who will be responsible for ensuring that a unit is ready for occupancy.
Turnover	The process whereby a tenant moves out of a unit and the vacated unit is refurbished for the new tenant.

Appendix B

TURNOVER PROCESS

Tenancy Cycle

The following represents the process whereby vacant units in a project are identified and the necessary maintenance to make the vacant unit suitable for the incoming tenant is performed. This process was in effect for the period of April 2000 through to December 2003.

Occupying a Unit

- When a tenant is accepted for residence in the MHA, a housing unit is assigned.
- Upon occupying the housing unit the tenant, along with the Building Superintendent, complete and sign off a *Unit Condition Report*.
- The report is kept in a tenant file maintained by the Property Manager (PM) at the portfolio office until notice is received from a tenant of their intention to leave the unit or the unit becomes vacant through eviction or abandonment.

Tenant Vacating With No Damages

- The PM receives notice from tenant of intended date of vacating the unit and records the date on the computerized Tenant Management System (TMS).
- PM sends the *Unit Condition Report* to the Building Superintendent who again views the unit with the tenant and if there are no damages, both sign off on the report.
- The *Unit Condition Report* is returned to the PM and filed in the tenant file.
- The PM determines if all rent is paid up to date and if so, the tenant file is closed on the date of the vacancy and is kept in the portfolio office for one month, after which it is boxed and sent to 185 Smith Street.
- A vacancy report is generated on the TMS by the PM on the last day of the month and is available to any Maintenance Coordinator (MC) through the computerized Maintenance Management System (MMS).
- The MC is to ensure the unit is cleaned either by the Building Superintendent if contracted to do so, or outsourced to a contractor.

Tenant Vacating With Damages

- The PM receives notice from a tenant of the intended date of vacating the unit and records the date on the TMS.
- The PM sends the *Unit Condition Report* to the Building Superintendent who again views the unit with the tenant and assesses damages.
- The report is sent by the Building Superintendent to the MC who attends and views and assesses the damages to the unit and determines whether those damages are attributable to the tenant.

Appendix B
(cont'd.)

- The MC completes a *Vacant Unit Inspection Form* on which he records what cleaning, repairs, etc., need to be completed.
- The MC photographs and records damages to the unit and completes a charge back form.
- If damages are minor and the Building Superintendent can fix them, a work request form is sent by the MC to the Building Superintendent.
- If a contractor is required, the MCs follow the MHA Tendering Policies and Procedures. Tenders are normally awarded by the 10th of the month.
- Invoices from contractors are first reviewed by a clerk against the purchase order for accuracy as to price and work, and are then sent to the MC for signing off.
- The MC determines the damages attributable to the tenant and advises the PM of the amount. The PM then enters an MHA invoice number and a brief description into the TMS.
- The PM then sends the MHA invoice and covering letter to the last known address of the tenant and requests payment of the invoice.
- Once the contractor's invoice is signed off by the MC, it is forwarded to Accounts Payable for processing and payment.

Appendix C

LISTING OF CURRENT TENDERED SSACs

The following is a listing of SSAC contracts as of December, 2003:

Contract

- Appliance Repair
- Appliance Replacement
- Armoured Car Services
- Domestic Hot Water Tank Replacement
- Emergency Power Supply
- Fire Alarm – Monitor – City
- Fire Alarm – Monitor – Rural
- Fire Extinguisher Inspection
- Fire Hose Inspection
- Fire Hydrant Inspection
- Fire Pump Inspection
- Furnace Replacement
- Furnace Service
- Liquid Fertilizing
- Procurement – Cleaning Supplies
- Security Services
- Sewer Cleaning
- Smoke Alarms - Non-Monitored
- Suite Cleaning
- Towing Services
- Window and Screen Repair
- Window Cleaning
- Water and Sewer Repairs

Appendix D | LETTER RECEIVED FROM THE MINISTER OF FAMILY SERVICES AND HOUSING

MINISTER OF
FAMILY SERVICES AND HOUSING

Room 357
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

February 27, 2003

Jon Singleton, CA, CISA
Auditor General
Office of the Auditor General
500 - 330 Portage Avenue
Winnipeg MB R3C 0C4

Dear Mr. Singleton: Jon,

As you are aware, the Manitoba Housing Authority (MHA) and the Department of Family Services and Housing have concerns regarding alleged irregularities in the maintenance function of the MHA. As has been discussed with departmental officials, it would be greatly appreciated if your office would consider assisting the MHA and the Department to resolve these concerns in a collaborative manner. In my opinion, the information and expertise that the Office of the Auditor General would be able to provide us in this matter would be of great value.

Please note that as our concerns have been referred by the MHA to appropriate police authorities, it is important that we proceed with our collaborative review quickly. I would appreciate your advising me as soon as possible if we may proceed as suggested. We understand that the Office of the Auditor General may elect to issue a report to the Legislative Assembly with respect to its work on this review.

Please note that the Department of Family Services and Housing would be pleased to accommodate any incremental costs related to this review.

Thank you for your prompt attention to this matter.

Yours sincerely,

All the best!

Honourable Drew Caldwell

Excerpt: The Auditor General Act

Content of the report

10(2) The report must indicate anything resulting from the work of the Auditor General that he or she considers should be brought to the Assembly's attention, including, but not limited to, circumstances in which

(a) required information was not provided or was not provided within a reasonable time;

(b) accounts were not properly kept or public money was not fully accounted for;

(c) essential records were not maintained, or the rules and procedures applied were insufficient, to

(i) safeguard and control public property,

(ii) secure an effective check on the assessment, collection and proper allocation of revenue, or

(iii) ensure that expenditures were made only as authorized;

(d) public money was expended for purposes other than those for which it was appropriated by the Legislature;

(e) financial and administrative provisions of Acts, regulations, policies and directives were not complied with.

Audit of operations

14(1) In carrying out his or her responsibilities under this Act, the Auditor General may examine and audit the operations of a government organization with regard to any of the following matters:

(a) whether financial and administrative provisions of Acts, regulations, policies and directives have been complied with;

(b) whether public money has been expended with proper regard for economy and efficiency;

(c) whether the Assembly has been provided with appropriate accountability information;

(d) whether the form and content of financial information documents is adequate and suitable.

No obstruction

15(2) No person shall obstruct or provide false or misleading information to the Auditor General or a person employed under the Auditor General in conducting an examination or audit under this section, or conceal or destroy any records or things relevant to an examination or audit.

Access to information

18(2) The Auditor General may require and is entitled to receive any information necessary for the purpose of this Act from

(a) any person in the public service or formerly in the public service;

(b) any current or former director, officer, employee or agent of a government organization or of a recipient of public money; or

(c) any other person, organization or other body that the Auditor General believes on reasonable grounds may have information relevant to an examination or audit under this Act.

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